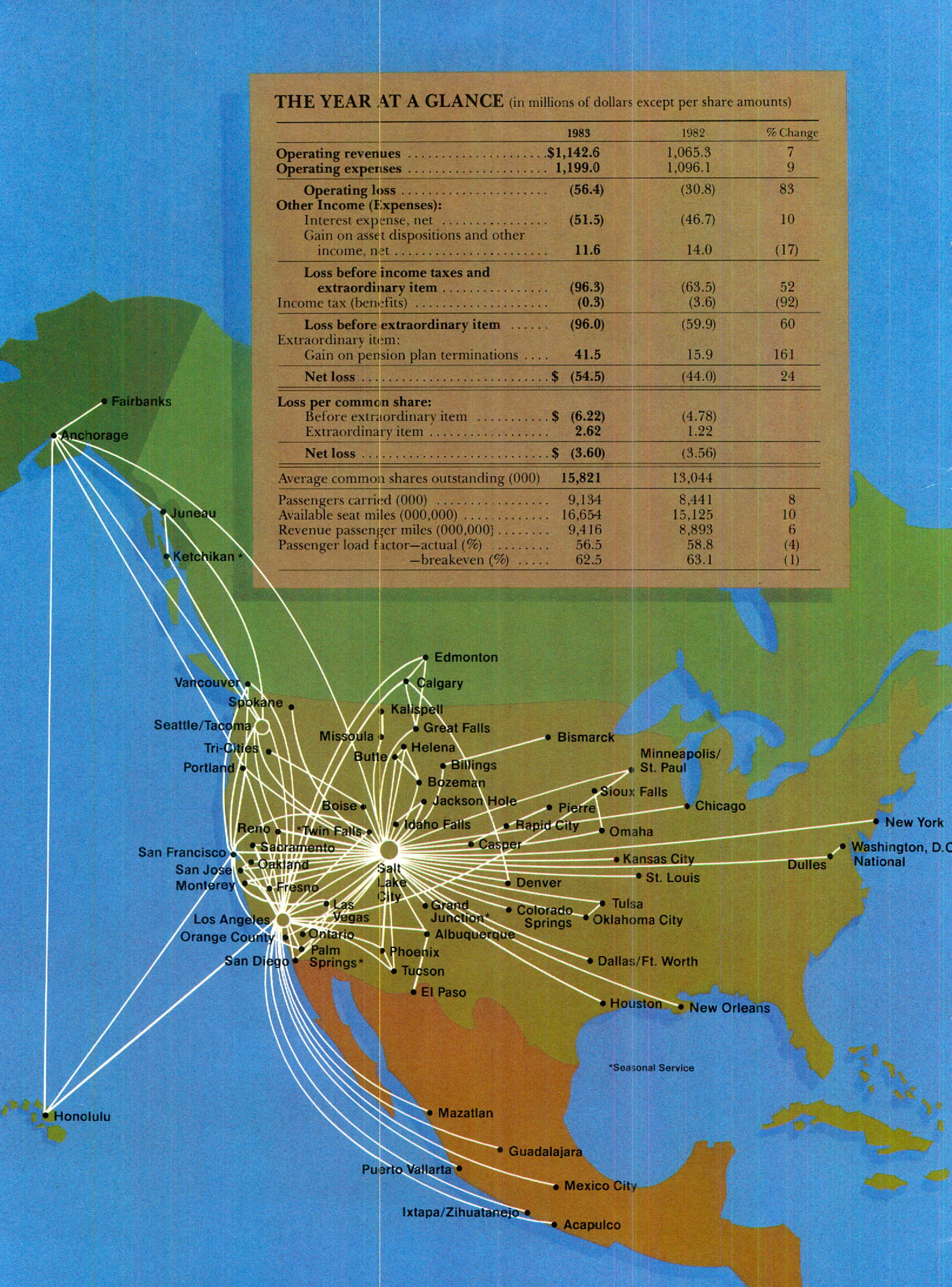
WESTERN AIRLINES NINETEEN EIGHTY THREE ANNUAL REPORT

C

THE YEAR AT A GLANCE (in millions of dollars except per share amounts)

	1983	1982	% Change
Operating revenues	**$1,142.6**	1,065.3	7
Operating expenses	**1,199.0**	1,096.1	9
Operating loss	**(56.4)**	(30.8)	83
Other Income (Expenses):			
Interest expense, net	**(51.5)**	(46.7)	10
Gain on asset dispositions and other income, net	**11.6**	14.0	(17)
Loss before income taxes and extraordinary item	**(96.3)**	(63.5)	52
Income tax (benefits)	**(0.3)**	(3.6)	(92)
Loss before extraordinary item	**(96.0)**	(59.9)	60
Extraordinary item:			
Gain on pension plan terminations	**41.5**	15.9	161
Net loss	**$ (54.5)**	(44.0)	24
Loss per common share:			
Before extraordinary item	**$ (6.22)**	(4.78)	
Extraordinary item	**2.62**	1.22	
Net loss	**$ (3.60)**	(3.56)	
Average common shares outstanding (000)	**15,821**	13,044	
Passengers carried (000)	9,134	8,441	8
Available seat miles (000,000)	16,654	15,125	10
Revenue passenger miles (000,000)	9,416	8,893	6
Passenger load factor—actual (%)	56.5	58.8	(4)
—breakeven (%)	62.5	63.1	(1)



CHAIRMAN'S LETTER

Fellow Shareholders:

While this 1983 Annual Report gives you a picture of yet another difficult year of change, it also describes a year which saw us achieve great strides in the second half of the year after a disappointing first half. We regard that second half progress as substantial and we intend to build on it in the coming years.

When I was elected president and chief executive officer on April 11 of 1983, our company was facing a number of serious problems. The company did not have a strong, unified senior management team in place. First quarter industry fare wars, together with an imposing near-term debt load, had us in an adverse financial position. Finally, our employee group was frustrated, given their efforts and sacrifices, at the lack of visible progress on the part of the company.

Solutions were required and the first priority in April 1983, as I saw it, was to assemble a strong, unified team. We did that.

Andre C. Dimitriadis, our senior vice president-finance and administration, was already with us and had earned respect and credibility with Western's employees while distinguishing himself in his dealings with the financial community.

We appointed Seth M. Oberg as senior vice president-operations. Already heading our flight operations department and having spent 26 years with Western, he was an obvious choice to assume responsibility for maintenance and engineering as well.

Don L. Beck, our senior vice president-service, brought to us over 25 years of airline industry experience, gained at the old Continental Airlines and as president and a director of Air Micronesia.

With the vital importance of marketing strategies in mind, we brought Harry T. Chandis to Western as senior vice president-marketing. After many years at American Airlines, he moved to what was then Allegheny Airlines and was the key figure in effecting a most successful marketing adaptation to deregulation, resulting in today's highly profitable USAir. Before joining Western, he served as president and general manager of Texas International.

Finally, Gerald Grinstein, former chairman of Western's Board of Directors, and involved in activities of the company's board since 1977, was elected president and chief operating officer on January 9, 1984.

As chairman and chief executive officer, I have the highest confidence in the senior management group we have assembled. It represents a strong blend of Western experience and new, fresh perspectives and accomplishments.

Western employees stepped forward from the time I took office to ask if they could help get Western back on track financially. The answer was that of course they could, but only after we had a management team they could rely on with confidence and a financial restructuring to give them time to help. Western's successful $90 million public offering, completed in June, and another for $65 million in November gave us the operating flexibility to effect some necessary changes.

Participation by employees required a complete program. Unlike some other carriers, Western's condition had precluded its people from receiving increased wages and benefits for some time. Our employees had already sacrificed. They deserved more than just the opportunity to give again. They were willing to accept an active ownership role in their company and the management team was committed to seeing they were involved.

The Western Partnership, completed in November, was born out of cooperation and contribution by labor leaders, individual employees and management with the strong support from you, the shareholders, who approved the employee stock plan. Held up as a model of labor-management teamwork, we see the Partnership as uniquely suited to Western.

Finally, we began the process of redirecting the company's efforts to make Western competitive and profitable in the marketplace. We made good progress. An operating profit of $2.8 million was recorded for the second half of 1983. This reflected significant improvement from the $16.8 million operating loss recorded for the same period in 1982, and it was the first time in five years that Western reported an operating profit in the second half of the year.

Our new marketing thrust has many facets, but its main effort is geared toward the frequent business traveler. With this market objective our first priority had to involve scheduling. While the Salt Lake City hub operation had been launched a year earlier, it needed further refinements. We strengthened this operation by adding new major business cities and refining schedules to attract the frequent business traveler. The number of connecting opportunities we offered our passengers was increased significantly. We seized the opportunity to capitalize on our position as the second largest carrier in Los Angeles by developing an international hub here in September. From the Los Angeles hub we could interconnect travelers moving between our domestic points and Mexico, Hawaii, Canada and Alaska. This enhanced our services systemwide.

We have moved forward in the pricing area as well. Western had to establish more effective revenue and yield management systems if it was going to make any progress. The steps we took, combined with the general economic recovery, resulted in significant yield, or average revenue per passenger mile, increases during the second half of 1983. While yield improvement must continue, we are pleased that Western has closed the gap from a position well below the industry average in yield to one even with the industry average.

To capitalize on our new marketing strategy, we chose the advertising agency of Doyle Dane Bernbach to deliver our new product message to our customers in an aggressive and stimulating manner.

All of these changes were accomplished almost entirely in the second half of 1983 and were designed to make Western a strong competitor in the face of a rapidly changing environment. This environment is illustrated most vividly by the phenomenon of Continental Airlines, which had represented about five percent of the U.S. major airlines domestic traffic, and filed for protection under the Bankruptcy Code in September 1983. Overnight this formidable competitor turned into a low-cost carrier and within weeks it was diverting traffic in many important markets in the West and Southwest. The emergence of several newer airlines, together with the new Continental and the new Braniff, ensure that Western and the rest of the established airlines will continue to face low cost competition.

Your management recognizes that, despite the accomplishments of late 1983, this company must continue its progress toward achieving the levels of efficiency achieved by the newer and the resurrected carriers. We view the Western Partnership as a foundation, and as concrete evidence that labor and management can work together toward mutual benefits. Such cooperation in reaching difficult decisions must continue in order for Western to return to profitability.

Western has staked out its territory. We are pleased with the early results of our new marketing efforts. While we are implementing additional cost efficiencies, we will remain aware of the continuing need to improve revenue performance and maintain a competitive posture.

You'll note that the remainder of this Annual Report to Shareholders is being presented to you in a somewhat different format. We have incorporated the company's Annual Report on Form 10-K, which is filed each year with the Securities and Exchange Commission in a prescribed form. It is more detailed than most traditional annual reports and we believe it will be preferred by most shareholders.

I hope that, as investors, you will take the opportunity to use Western's services whenever possible for your business or pleasure travel needs and urge your friends and associates to do the same. We appreciate your continued interest and support.

Lawrence H. Lee
Chairman and
Chief Executive Officer

March 16, 1984

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For fiscal year ended December 31, 1983 | **Commission File Number 1-1521**

WESTERN AIR LINES, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**95-1360150** (I.R.S. Employer Identification No.)

6060 Avion Drive, Los Angeles, California 90045
(Address of Principal Executive Offices)

Registrant's telephone number, including area code: (213) 646-2345

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock—$1 par value $2 Series A Cumulative Convertible Preferred Stock 10% Subordinated Sinking Fund Notes	New York and Pacific Stock Exchanges
5¼% Convertible Subordinated Debentures 10¾% Senior Secured Trust Notes 14% Senior Secured Convertible Notes Warrants to Purchase Common Stock	New York Stock Exchange

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

Registrant's Common Stock outstanding at February 10, 1984 was 24,085,790 shares.

The aggregate market value of the voting stock of the Registrant held by non-affiliates of the Registrant at February 10, 1984 was $102,364,607.

DOCUMENTS INCORPORATED BY REFERENCE

Title of Document	Part Hereof Into Which Document is Incorporated
Definitive Proxy Statement Relating to 1984 Annual Meeting of Shareholders	Part III

PART I

ITEM 1. BUSINESS

General

Western Air Lines, Inc. ("Western" or the "Company") is a commercial airline serving the continental United States, Alaska, Hawaii, Canada and Mexico. It is the ninth largest airline in the United States in terms of 1983 revenue passenger miles. Western's operations serve principally the western portion of the United States where it provides service to virtually all major cities. The Company maintains its principal hubs in Salt Lake City and Los Angeles.

Routes and Services

The Company provides air transportation services to 63 destinations in the United States and Canada, on routes extending from New York and Washington, D.C. in the east to Honolulu and Anchorage in the west. Other principal cities on Western's routes include Chicago, Dallas/Ft. Worth, Denver, Houston, Kansas City, Las Vegas, Los Angeles, Minneapolis/St. Paul, Phoenix, Portland, St. Louis, Salt Lake City, San Diego, San Francisco and Seattle/Tacoma. Western provides extensive service to Alaska, Hawaii and Mexico from the western United States.

During 1981 and 1982 it became apparent that the Company's route structure, which had evolved in an era of extensive government regulation of the industry, was not well suited for successful operations in a deregulated environment. See "—Economic Regulation of Air Transportation." Western operated primarily a "point-to-point" route structure serving medium haul, high density markets that lacked adequate traffic feed from beyond route segments. This structure provided no competitive advantage to Western against either new entrants having lower operating costs, or existing trunklines and regional carriers having systems with substantial traffic feed.

On May 1, 1982, Western began implementing an extensive domestic route realignment based on a "hub and spoke" system. Western now serves both major and smaller sized cities in the western part of the United States (plus selected major cities in the midwestern and eastern portions of the country) through strategically located hubs. Salt Lake City, located near the center of Western's route system, was established as the principal hub. Flights from throughout the system are now routed through Salt Lake City, where connections are available to other Western cities, allowing Western to control a significant portion of its traffic feed. A complementary hub has been established in Los Angeles and a secondary hub is located in Seattle. The additional flying required to implement these changes has increased the average daily utilization of Western's fleet.

Throughout 1982 and 1983 Western adjusted its schedules and routes to build up operations at its hubs. Western now serves virtually every city on its system from its Salt Lake City hub. This expansion was accomplished with the use of additional Boeing 737 aircraft which were added to the Western fleet between December 1982 and June 1983. See "PROPERTIES—Flight Equipment."

Western's international certificates authorize service to Canada and Mexico. In Canada, Western serves Vancouver from Los Angeles, San Francisco and Portland and Calgary/Edmonton from Denver, Los Angeles and Great Falls. Western provides service from Los Angeles to six cities in Mexico: Mexico City, Acapulco, Guadalajara, Puerto Vallarta, Mazatlan and Ixtapa/Zihuatanejo.

Western's passenger traffic mix reflects the fact that, in addition to serving the principal business centers in the western United States, it also serves most of the major vacation areas in western North America. Western estimates that presently more than half of its passenger traffic is vacation or pleasure oriented and Western believes that this portion of its business is particularly susceptible to changes in general economic conditions. For this reason, the Company is shifting its emphasis to the frequent business traveler through improved schedules and related marketing efforts.

The business of Western is seasonal in nature, with the highest revenues of the year normally being recorded in the third quarter. This seasonality is consistent with industry patterns, and is attributable to the propensity of the public to take pleasure trips during the summer months of the year.

Revenue and Traffic Information

The following table sets forth certain statistics relating to Western's operations during the five years ended December 31, 1983:

	Year Ended December 31,				
	1983	1982	1981	1980	1979
Revenue Components as Percent of Total Operating Revenue:					
Passenger	87%	87%	90%	89%	89%
Cargo	6	6	6	6	6
Contract service and other	7	7	4	5	5
Total	100%	100%	100%	100%	100%
Traffic:					
Aircraft operated at end of period	74	72	70	71	76
Average daily utilization per aircraft (block hours)	8:42	8:09	7:57	8:24	8:55
Passengers carried (000,000)	9.1	8.4	8.4	9.1	11.2
Available seat miles (000,000)	16,654	15,125	14,496	15,516	16,631
Revenue passenger miles (000,000)	9,416	8,893	8,548	8,832	10,495
Passenger load factor					
—actual (%)	56.5	58.8	59.0	56.9	63.1
—breakeven (%)	62.5	63.1	65.8	62.0	63.2
—profit margin (point difference)	(6.0)	(4.3)	(6.8)	(5.1)	(0.1)
Passenger revenue per revenue passenger mile ("yield")	$.1055	$.1042	$.1113	$.1010	$.0807
Operating expense per available seat mile	$.0720	$.0725	$.0777	$.0671	$.0550
Average length in miles per passenger trip	1,031	1,053	1,017	965	926
Available ton miles (000,000)	2,150	1,964	1,941	2,071	2,189
Cargo revenue ton miles (000,000)	167	156	151	163	162
Cargo tons carried (000)	117	114	110	121	126
Average number of employees	10,355	9,760	10,120	10,657	11,256

Passenger load factor is the ratio of revenue passenger miles ("RPMs") to available seat miles ("ASMs"). The breakeven passenger load factor represents the approximate percentage of available seats which must be occupied for revenues to cover all expenses except income taxes, assuming no changes in yield and expenses. See "—Competition" for a discussion of load factor and yield.

Employee Relations

The number of Western employees during 1983 averaged 10,355, up from an average of 9,760 in 1982. Labor unions represent approximately 92 percent of Western's employees. Western has not suffered a significant work stoppage by its employees during the past fourteen years, and considers its relations with its employees to be satisfactory. If Western were to suffer a strike or work stoppage, it could have a material adverse effect on the Company. Western's business also can be adversely affected by strikes or work stoppages by non-employees. For example, the air traffic controllers' strike during 1981 had an adverse impact on Western's operations and earnings.

The following table sets forth Western's union-represented employees by classification as of December 31, 1983:

Employee Group	Number of Employees	Union	Contract Open for Amendment
Agent and Clerical (U.S.)	4,577	Air Transport Employees	December 1, 1984
Flight Attendants	2,017	Association of Flight Attendants	January 1, 1985
Mechanics and Related Employees	1,587	International Brotherhood of Teamsters (IBT)	July 1, 1983*
Pilots	1,252	Air Line Pilots Association	May 1, 1984†
Stock Clerks	88	International Brotherhood of Teamsters	July 1, 1983*
Flight Operations Ground School Instructors	30	International Brotherhood of Teamsters	July 1, 1983*
Flight Superintendents	26	Transport Workers Union	November 1, 1984
Agent and Clerical (Mexico)	159	Sindicato Nacional de Trabajadores de Aviacion y Similares	January 19, 1986
Agent and Clerical (Canada)	132	Air Transport Employees	July 1, 1984

* In negotiation.

† Contract opened on January 3, 1984 for negotiations regarding pay and minimum pension benefits.

Western has obtained pay cuts and productivity improvements from most of its employees that saved Western in excess of $50 million in cash compensation expense in each of 1983 and 1982. Noncash expense of $6.7 million related to stock issued under the Employee Stock Plan (described below under "Western's Partnership Plan") partially offset the cash savings in 1983. Both the cash savings and the stock expense related to Western's Partnership Plan will continue throughout most of 1984.

Various negotiations beginning in December 1981 have resulted in significant concessions from all of Western's domestic labor groups as follows:

The domestic agent and clerical employees, represented by the Air Transport Employees, agreed to a 10 percent cut in wages for one year, effective in May 1982, and deferral of a 2.7 percent increase scheduled for June 30, 1982. Subsequently they agreed to an extension of their contract until December 1, 1984 and to a 10 percent one year reduction in their wages beginning November 1983.

In January 1982 Western's flight attendants, represented by the Association of Flight Attendants, agreed to an extension of their contract until January 1983 and a 10 percent cut in wages and expenses for the year 1982. An extension of their contract until January 1, 1985 and a 10 percent one year reduction in wages beginning November 1, 1983 was agreed to in late 1983.

The mechanics and related employees, stock clerks, and flight operations ground school instructors, represented by the IBT, refused to take a 10 percent pay cut in 1982, but did extend their agreement without economic increase through June 30, 1983. The instructors subsequently deferred a six percent increase scheduled for July 1, 1982. The IBT-represented employees agreed to a 10 percent one year reduction in wages beginning November 9, 1983. No extensions to the contract amendable dates were made and negotiations are expected to resume in the near future. The Company and the IBT have agreed, however, that once new agreements are reached, economic changes, if any, will be deferred until November 9, 1984.

In September 1981 Western's pilots, represented by the Air Line Pilots Association ("ALPA"), agreed to a wage freeze through April 1982, and to the elimination of the third crew member in Western's 737 aircraft. In January 1982 the pilots agreed to a 10 percent pay cut and to a temporary reduction in Western's contribution to one of the pilot pension plans. Continued negotiations with ALPA resulted in extension of the 10 percent pay cut, a deferral of an eight percent pay increase, and termination of the pilots' defined benefit pension plan as well as permanent work rule concessions which increased pilot productivity. In conjunction with these concessions, the pilots received job and benefit protections and increased levels of contributions to a defined contribution pension plan. The 10 percent pay cut and deferral of the eight percent pay increase are scheduled to expire on September 30, 1984.

The flight superintendents (dispatchers), represented by the Transport Workers Union, agreed in January 1982 to a one year 10 percent cut in wages. Subsequently they agreed to an extension of their contract until November 1, 1984 and to a one year 10 percent reduction in their wages beginning November 1, 1983.

Employees in Mexico, represented by Sindicato Nacional de Trabajadores de Aviacion y Similares, received pay and benefit increases (denominated in pesos) of 36 percent in January 1982, 12.6 percent in March 1982, three percent in November 1982, 50 percent in January 1983, 10.87 percent in July 1983, and 62.5 percent in January 1984. These industry-wide increases, however, resulted from and reflected the high rate of inflation in Mexico and devaluations of the Mexican peso, and in light of the relative strength of the U.S. dollar versus the peso, these increases did not result in dollar cost increases nearly as substantial as those percentages might suggest.

Employees in Canada, now represented by the Air Transport Employees, refused to take a pay cut or agree to productivity improvement changes in 1982. The Company granted a five percent pay increase to the Canadian employees in July 1983, in an attempt to reestablish the historical relationship between pay scales in the domestic system and in Canada and in recognition of then existing economic conditions in Canada.

In addition to the concessions obtained from employee groups covered by collective bargaining agreements, Western has reduced the pay rates of its management and administrative personnel. This group, which last received a general pay increase in November 1980, received a 12.5 percent reduction in wages in December 1981 which is still in effect and will not expire until at least September 30, 1984.

Western's Partnership Plan

As part of management's plan to return to profitability, Western in November 1983 instituted its Partnership Plan. In exchange for wage concessions, Western instituted a three-part program consisting of the following:

Employee Stock Plan

The first component of the Partnership Plan is the establishment of the Employee Stock Plan which was approved by shareholders on October 13, 1983. On November 10, 1983, the Company contributed 7,800,000 shares of Common Stock to the Employee Stock Plan. A trust has been established under the administration of an independent trustee (the "Stock Trust") and periodically shares contributed to the Employee Stock Plan will be allocated to the accounts of participating employees. The initial contribution of Common Stock to the Employee Stock Plan will be allocated to the accounts of participating employees in four quarterly allocations during the plan's first year. All shares held by the Stock Trust will be voted by the trustee in proportion to the vote of all other shares voted except that on any question regarding the merger or acquisition of the Company, the creation by the Company of another airline, the sale of all or substantially all of the Company's assets or the liquidation of the Company, the trustee will vote all allocated shares in accordance with individual employee instructions.

All shares allocated to employee accounts will be fully vested. However, no shares will be distributed from the Stock Trust to a participant until such employee terminates employment with the Company for any reason, including retirement or death, except that employees may qualify for an early distribution in the event of twelve consecutive months of furlough or an unforeseeable extreme medical emergency.

The Employee Stock Plan is intended to be qualified under Section 401(a) of the Internal Revenue Code of 1954. If it fails to so qualify, Western has agreed to reimburse employees for taxes incurred as a result.

Profit Sharing Plan

The second component of the Partnership Plan is the establishment of a cash profit sharing plan (the "Profit Sharing Plan"). Under the Profit Sharing Plan, the Company will distribute to participating employees in cash 15 percent of the first $25 million of pretax profits and 20 percent of pretax profits in excess of $25 million annually for the three-year period beginning January 1, 1984. Profits will include only income from operations before federal income taxes and shall exclude any gains or losses from asset sales, debenture exchanges, other non-operating gains or losses, or extraordinary items. Profits will be calculated prior to giving effect to the contributions to the Profit Sharing Plan. In the event that the amount of profits distributable to employees under the Profit Sharing Plan for any year does not exceed $100,000, the Company may, at its discretion, direct that such amount be distributed in an alternative manner to be determined. If sufficient profits are not earned in at least two out of the three years, the Profit Sharing Plan will be extended year to year until distributions of at least $2 million have been made in at least two separate years.

Board Representation

The final component of the Partnership Plan is the designation by representatives of labor groups of two nominees for election to Western's Board of Directors at each annual meeting of shareholders. This concept has been approved by the Board of Directors, and the Company has amended its by-laws to accommodate those two nominees, but the labor groups have not yet designated such nominees.

Participating employees in the Partnership Plan consist of non-contract employees and those employees who are members of collective bargaining units which have agreed to future pay concessions. The labor concessions include a 10 percent reduction in cash wages for a one year period (12.5 percent in the case of non-contract employees, and, in the case of pilots, a continuation for nine months beginning January 1, 1984 and ending September 30, 1984 of a 10 percent pay cut already in effect and which otherwise would have terminated December 31, 1983, together with a deferral until October 1, 1984 of an additional eight percent wage increase that otherwise would have been effective January 1, 1984). Cost of living allowances that otherwise would become effective during the wage cut period for some represented employee groups are to be deferred until the conclusion of such period.

During the period October 1, 1983 through October 31, 1984, the Company estimates that it will save approximately $41.6 million in cash compensation from the levels that otherwise would have been in effect. Because pay cuts were in effect during a portion of the period October 1, 1982 through October 31, 1983 for most employee groups, cash savings from wage concessions included in the Partnership Plan may be nominal when compared to the prior thirteen month period. For financial reporting purposes, the $41.6 million savings will be substantially offset by the Company's noncash expense for contributions to the Employee Stock Plan and could be further offset by any profit sharing contributions.

The agreements for the Partnership Plan, including the wage concessions, with the five unions representing seven employee groups have varying and interlocking terms relating to events that could result in a termination of the wage concessions and, in some cases, a refunding of the wage reductions made. Any of the following events may cause such a termination: (1) the resignation or termination of employment of Lawrence H. Lee as Chief Executive Officer of the Company; (2) insolvency or similar proceedings; (3) the granting of a bonus or a stock option to any employee or management personnel; (4) a merger involving, or acquisition of, the Company unless an agreement is entered into within thirty days of such merger or acquisition providing for the continuation of the wage reduction; and (5) the granting of improvements in compensation and/or benefits, during the period in which wage reductions are in effect, to any employee group. Under such circumstances, any shares of Common Stock under the Employee Stock Plan which had vested in the accounts of participating employees would be unaffected. Pay increases, other than promotional increases, to nonrepresented employees may be made only with the consent of employee labor group representatives. Any increase in pay or benefits without such consent may result either in termination of participation in the Partnership Plan by a group or groups of employees or a requirement that the particular increase be applied to a represented employee group or groups.

In summary, Western's labor costs during 1982, 1983 and 1984 have been and will be favorably impacted by employee wage concessions which are scheduled to expire in late 1984. In light of conditions currently prevailing in the airline industry, Western expects it will need further concessions from its employees in order to enhance the efficiency of its operations and compete effectively in the coming years. Discussions with employee groups regarding these matters are expected to begin within the next several weeks. No assurance can be given as to the outcome of any such discussions.

Pension Benefits

Substantially all employees of Western are covered by retirement plans, including one multi-employer plan. Western's contributions to the Company-sponsored plans, together with the participants' required contributions, are sufficient to fund current service costs annually and prior service costs over ten to twenty years. Actuarial gains and losses are amortized over ten-year periods.

In April 1982 Western terminated its defined benefit retirement plan for non-union employees and subsequently established a new defined contribution plan. The termination allowed Western to recover approximately $15.9 million which represented its share of the excess of plan assets over liabilities as of the termination date. Annuities were purchased to satisfy all of the plan's liabilities.

In January 1983 Western finalized the termination of its defined benefit plan for pilots. In conjunction with such termination, Western agreed to make increased contributions to the pilots' defined contribution plan which are expected to result in pilot pension plan costs slightly higher than if both plans had continued in effect. The termination allowed Western to record a $41.5 million extraordinary gain which represents its share of the excess of plan assets over plan liabilities as of the termination date. Annuities have been purchased to satisfy plan liabilities. See Note 4 to Financial Statements.

These terminations were completed in accordance with the requirements of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). ERISA requires, among other things, that annuities be purchased from insurance companies to provide all accrued benefits under the terminated plans, that all employees be 100 percent vested upon a plan termination, that accrued retirement benefits not be reduced for any participant, and that the Pension Benefit Guaranty Corporation, an independent federal agency, certify the sufficiency of the plan assets to cover plan liabilities.

Competition

Western is presently subject to multiple carrier competition on most major domestic routes that it serves. Some of Western's competitors are larger with more extensive route systems and with greater financial or other resources. Western's hub and spoke system centered in Salt Lake City competes with similar systems of other carriers centered in other cities, such as Denver where three competing carriers maintain hubs. Western's Los Angeles hub competes with the hubs of two other carriers in San Francisco. Other competitors of Western are regional carriers, some of which have lower cost structures enabling them to compete effectively on particular routes. Western also must face the additional competitive pressures presented by (i) several newly-formed carriers which have lower cost structures than established carriers; (ii) the pricing actions of Continental Airlines, which since its filing for protection under Chapter 11 of the federal bankruptcy laws, has restructured much of its operations with lower costs and lower fares; and (iii) other Western competitors, such as United Airlines and Frontier Airlines, which in many cases have matched the lower fares being offered by Continental.

Airlines are operating in an environment where price is a major and, in many instances, the most significant element of competition. Since fare reductions are no longer controlled by the Civil Aeronautics Board (the "CAB"), the airlines are now free to offer lower basic fares and promotional fares involving virtually unlimited discounts. Many airlines, including Western, have taken advantage of this freedom to offer low basic fares or deep discounts on major routes, and likewise generally have elected to match such fares when offered by competitors.

Many carriers, including Western, from time to time have introduced promotional discount fares designed to maintain and increase traffic. While management believes such fares have accomplished those objectives, they have also resulted in lower yields than otherwise would have been the case. The recent fare environment has shown more stability, but some carriers have reinstated significantly discounted fares which might trigger new "fare wars" and result in decreased yields.

Such frequent variations in industry pricing conditions tend to impact dramatically an airline's load factor and yield, and small changes in load factor and yield can have significant effects on operating results. For example, based on Western's available seat miles and its passenger yield for the year 1983, a one percentage point change in Western's passenger load factor would have produced an increase or decrease of approximately $17.6 million in its operating revenues. Likewise, based on Western's revenue passenger miles for the year 1983, a change in yield of one-tenth of one cent would have resulted in an increase or decrease of approximately $9.4 million in Western's operating revenues. Western's yield in recent years has been inadequate to cover fully allocated costs at actual load factors.

Western's services to both Canada and Mexico are subject to competition by carriers of those countries, but on most routes only one such airline has been authorized by each country. Fares between United States points and Canada and Mexico are still controlled by the governments concerned, and the International Air Transportation Competition Act of 1979, which authorized airlines to reduce international fares up to 50 percent or increase them up to five percent without justification for changes, has had little impact to date on the fare structures on United States-Canada and United States-Mexico routes.

Travel Agents

Western's business is substantially dependent upon sales made by travel agents. During 1982 and 1983 approximately 70 percent and 73 percent, respectively, of Western's passenger sales were generated by travel agents. In view of recent airline bankruptcies, a perceived lack of financial stability of an air carrier may have an effect upon the discretionary selection of that airline by travel agents.

In response to the travel agency open commission environment begun in 1980, it was necessary for Western to devise and offer to its authorized travel agents its own competitive commission structures in order to secure adequate levels of travel agency business. Western generally offers travel agents in the United States a 10 percent commission, compared with a four-tier commission structure ranging from seven to 11 percent in effect just prior to the open commission environment.

Recently the CAB eliminated the exclusivity held by the travel agent industry for the sale of airline tickets. Consequently, airline tickets now can be distributed through any retail channel, and airlines are free to reach individual agreements with such outlets. While this decision by the CAB could have a substantial impact on airline distribution methods, early indications are that airlines will refrain from expanding beyond traditional distribution channels.

In early 1983 the CAB adopted a rule which permitted travel agents to issue tickets using the ticket stock and/or validation plates of large airlines with automated reservations and ticketing systems, even when those airlines did not participate in the transportation. The effect of such ticketing was to divert, for up to 60 days, the cash that would otherwise be paid more rapidly to the carriers providing the transportation, such as Western. The CAB has changed that rule and now requires travel agents whenever possible to use the ticket stock and/or validation plates of a carrier providing the transportation. The CAB has been investigating competitive abuses and consumer injury resulting from the practices of certain airlines that provide computer reservations systems to travel agents and has directed its staff to prepare proposed rules to address such abuses in computer reservations systems. Western and other carriers had requested the CAB to take remedial action to eliminate these systems' bias against the display of Western's and such other carriers' schedules and fares and the owners' discriminatory prices for participation, anticompetitive access conditions, and unfair use of travel agent sales information.

Fuel

Western's arrangements with suppliers of aircraft fuel presently provide for substantially all of its actual and anticipated needs.

Western purchases the bulk of its fuel from major oil companies under annual agreements which guarantee supply but not price. However, the ability of Western's suppliers to furnish Western with fuel is dependent upon a number of factors, including national and international petroleum supplies and government regulation. Western expects fuel supplies to remain more than adequate for the foreseeable future. Western has been faced recently with a tightening of credit terms by fuel suppliers.

Price of fuel, rather than supply, has been the major problem in recent years. For many years, prices of fuel continued to escalate and the cost of fuel has become a major item of expense for Western and all other airlines. In 1983 fuel costs reached $320 million and accounted for 27 percent of Western's total operating expenses compared to 20 percent in 1978. The difference was due entirely to the increased price of fuel since the amount of fuel consumed actually declined between 1978 and 1983. During 1982 fuel prices first leveled off and then began to decline somewhat, averaging six percent below 1981 levels. The trend of lower fuel prices continued during 1983 and fuel prices generally appear to have stabilized in late 1983 and early 1984. The impact of fuel prices upon total operating costs is illustrated by the fact that based upon Western's fuel consumption during the year 1983, a one cent per gallon change in fuel prices would have resulted in an increase or decrease of approximately $3.5 million in Western's annual fuel costs.

Western's operating procedures are designed to keep fuel consumption to a minimum, primarily through reduced airspeeds and elimination of excess weight.

The following table sets forth Western's fuel consumption and related information for the past ten years:

	Consumption (Millions of Gallons)	Average Price Per Gallon	Total Fuel Cost (Millions)	Total Operating Expense (Millions)	Fuel Cost As a Percent of Operating Expense
1974	305	$0.23	$ 71.4	$ 446.2	16.0
1975	317	0.29	93.1	505.9	18.4
1976	346	0.31	108.3	569.8	19.0
1977	379	0.36	138.0	662.0	20.8
1978	400	0.39	154.9	779.6	19.9
1979	397	0.57	225.7	913.9	24.7
1980	342	0.87	296.4	1,041.5	28.5
1981	315	1.04	326.6	1,125.8	29.0
1982	320	0.98	312.0	1,096.1	28.5
1983	354	0.91	320.0	1,199.0	26.7

Consumption of fuel in 1983 increased due to Western's expanded operations, including the continued expansion of the Salt Lake City hub, as well as the implementation of the Los Angeles hub in September 1983.

Economic Regulation of Air Transportation

From 1938 to 1978 the airline industry was subject to the comprehensive economic regulatory jurisdiction of the CAB. Under that framework of regulation, authority to operate new services could be obtained only by proving a public need therefor, competition was restricted, rates and fares were tightly controlled, intercarrier arrangements for cooperative purposes were closely supervised and mergers and consolidations between air carriers were carefully scrutinized.

The Airline Deregulation Act of 1978 (the "Deregulation Act") materially changed the statutory scheme of regulation of domestic air transportation. Under the Deregulation Act, the CAB lost its authority with respect to domestic routes on December 31, 1981, and its authority over fares and intercarrier transactions, including mergers, as of January 1, 1983. Under the Deregulation Act, the CAB will go out of existence as of January 1, 1985, and certain of its functions will be transferred to other government departments. The Deregulation Act made no changes in the law as it relates to authority to engage in foreign air transportation, except the CAB's power to grant exemptions for temporary authority was liberalized. Nevertheless, the United States government has followed a practice of trying to convince foreign governments that multiple carrier designations on international routes should be authorized by intergovernment agreement. While many countries have acceded to the position of the United States government, Mexico and Canada have not.

The airlines presently operate in an environment of unrestricted competition in domestic air transportation. Carriers no longer have an obligation to provide service but can start and stop service on any route virtually at will (subject to slot and gate availability, and small community essential air service requirements) and have complete freedom in pricing their products.

Western is unable to predict the ultimate effect of the Deregulation Act on its operations, but if the increased competition that has resulted since the Deregulation Act became effective results in further overcapacity and uneconomically low fares, the financial position of the Company could be materially adversely affected.

In 1983 Western received certificate authority to serve a Los Angeles—Puerto Vallarta/Mazatlan route until September 1986 and a Los Angeles/Salt Lake City—Calgary/Edmonton route until October 1988. Nonstop flights are operated between all the authorized city pairs on these routes with the exception of Salt Lake City—Calgary/Edmonton. Nonstop operations between Salt Lake City and Alberta scheduled to begin on October 30, 1983 were prevented by a Canadian Government decree which the U.S. Government has declared to be a violation of the air services agreement between the two countries. Negotiations between the two governments have not yet resolved this dispute.

Environmental Regulation

For a number of years the federal government has been tightening its controls over aircraft noise. Pursuant to Congressional directive, the Federal Aviation Administration ("FAA") in 1969 prescribed aircraft noise limits for all aircraft designed after 1969. In 1973 and again in 1977 the FAA broadened the application of these noise limits and promulgated a phased compliance schedule whereby essentially all non-complying commercial jet aircraft must be replaced or modified by 1985 in order to meet the prescribed limits. Twelve of the Company's 16 Boeing 737's are non-complying aircraft at this time. However, because these aircraft are covered by a small community service exemption, the deadline for compliance with prescribed noise limits has been extended to 1988.

California authorities have promulgated noise standards in an attempt to limit the total noise impact of airport operations on surrounding communities throughout the state. In connection therewith these authorities have asserted jurisdiction over such matters as curfews at local airports, even to the extent of attempting to override the decisions of airport proprietors. The Los Angeles City Council has adopted an ordinance which requires that aircraft which do not comply with federal noise standards be phased out of operation at Los Angeles International Airport by 1985— a schedule earlier than that contained in the federal regulations described above. Compliance with this ordinance may be more burdensome on the airlines than compliance with federal regulations because it relates to use of aircraft at a single airport. If airline efforts to resolve such conflict between federal regulations and local ordinances through regulatory or legislative processes are not successful, it is likely that the airlines would seek a determination in court that the local ordinances are unenforceable under a theory of federal preemption. In addition, proprietors at several airports have adopted or are considering noise regulations that are more stringent than the pertinent federal or state standards. The stricter standards could hinder carriers, including Western, from commencing or continuing operations at those airports. See "LEGAL PROCEEDINGS."

ITEM 2. PROPERTIES

Flight Equipment

As of December 31, 1983, Western operated a fleet of 74 jet aircraft. The following table summarizes the composition of Western's fleet at the end of 1979 through 1983, and fleet composition and aircraft on order at January 31, 1984:

	Present Seating Configuration First Class/ Coach	Aircraft in Service at Year End					Fleet Composition at January 31, 1984		
		1979	1980	1981	1982	1983	Owned*	Leased*	On Order
Boeing									
727-200	12/133	39	44	47	47	47	33	14	—
737-200	0/121	21	15	12	14	16	10	6	12
737-300	—	—	—	—	—	—	—	—	9
707/720B	—	6	—	—	—	—	—	—	—
McDonnell Douglas									
DC-10-10	24/267	10	12	10	10	10	7	3	—
DC-10-30	16/247	—	—	1	1	1	—	1	—
Total		76	71	70	72	74	50	24	21

* See Note 2 to Financial Statements for aggregate lease obligations and lease terms as of December 31, 1983, and Note 6 to Financial Statements for information on pledged assets.

Western's present fleet is in compliance with federal noise regulations with the exception of 12 of its 16 Boeing 737s. These aircraft are expected to be retrofitted at a cost of approximately $300,000 each in advance of the 1988 deadline for compliance. See "BUSINESS—Environmental Regulation."

Western's decision to serve primarily the western portion of the United States, its development of a principal hub at Salt Lake City and its institution or resumption of service to many smaller cities have created a need for additional Boeing 737 aircraft which are well-suited for short haul routes. The DC-10 aircraft is a high capacity, wide body aircraft well-suited for medium to long haul routes, but is not well-suited for short haul routes. Although the Company's DC-10 fleet currently is being fully utilized, current plans are to dispose of some DC-10 aircraft as opportunities arise.

In order to expand operations at its Salt Lake City hub, Western leased two new Boeing 737-200 aircraft in December 1982 for a term of 12 years with options to extend the lease and/or purchase the aircraft. During 1983 Western leased two additional used Boeing 737-200 aircraft from another airline for a term of three years with an option to renew for one additional year.

Western has on order from the manufacturer three Boeing 737-300 aircraft for delivery in 1985. In addition, in January 1984 Western cancelled contracts for six Boeing 767 widebody aircraft and placed new orders for six Boeing 737-300 aircraft scheduled for delivery in 1986 and 1988, and twelve Boeing 737-200 aircraft scheduled for delivery in 1984 and 1987. The purchase price of these aircraft is approximately $460 million, of which $25.0 million is already on deposit. There can be no assurance that long-term secured debt or lease financing will be available to finance these acquisitions. See Note 3 to Financial Statements.

Ground Properties and Equipment

Western's general offices and principal overhaul and maintenance base are located at Los Angeles International Airport. These facilities, including a DC-10 hangar and a parking structure completed in 1975, have been built by Western as improvements on leased land. The lease on the land and buildings expires in 1993, subject to the right of the City of Los Angeles to terminate the lease on March 31, 1988, or any March 31 thereafter. Upon such termination or expiration, the improvements revert to the city. Western also leases hangars at Seattle/Tacoma and San Francisco, as well as terminal facilities at most airports served, plus ticket and administrative offices throughout its system. Public airports are utilized for flight operations generally under contractual arrangements with municipalities or agencies controlling them.

During 1984 Western is continuing certain improvements begun in 1983 in its passenger terminal facilities at Salt Lake City to accommodate its growing hub operations and at Los Angeles to integrate with new second level roadways. Western's share of the cost of these improvements is expected to be approximately $12.5 million of which $2.4 million was expended through December 31, 1983.

Pledged Assets

Substantially all of Western's property and equipment is pledged as collateral to secure debt and other obligations. For additional information, see Note 6 to Financial Statements.

ITEM 3. LEGAL PROCEEDINGS

Western is involved in various litigation, including cases alleging discrimination in employment practices. In one such action involving the ability of Western pilots to continue after age 60 as second officers, a judgment was entered during 1981 directing the Company to allow three pilots to continue working as second officers after age 60, and awarding those pilots back pay and attorneys' fees. That case was affirmed on appeal and a petition for rehearing was denied, and Western is seeking to have the matter heard by the U.S. Supreme Court. Additionally, at least one other similar action has been filed. Western does not believe such claims will result in any material liability to Western.

The employment practices cases also include several actions brought by former Western employees variously alleging wrongful termination, age discrimination, breach of contract and of implied covenants of good faith and fair dealing and intentional infliction of emotional distress. Most of these actions also seek exemplary or punitive damages, and thus the total amounts sought in these cases are substantial. Western believes its insurance policy covers many of these claims, although its insurance carriers have reserved their rights to later dispute such coverage. Western does not believe such claims will result in any material liability to Western.

In light of litigation in recent years regarding the subjects of aircraft noise and engine emissions, operators of certain airports, including those at Los Angeles, San Jose, Orange County and San Diego, California, and Washington, D.C.'s National, have imposed or are considering imposition of limitations on frequency and timing of airline flights or upon the proportion of any airline's fleet which may continue to operate without complying with specified noise standards. In general, enforcement of such restrictions at a major airport served by Western could have a material adverse effect on its operations.

A California firm, which acted as a consultant for Western during part of 1982, filed a complaint in the Superior Court of the State of California for the County of San Francisco against Western, Neil G. Bergt, Western's former Chairman of the Board, and others for breach of contract, fraud, defamation and other claims. The total damages sought, including compensatory and punitive damages, exceed $10 million. Western does not believe the action will result in any material liability to Western.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

A special meeting of shareholders of Western Air Lines, Inc. was convened on October 13, 1983, for the purpose of voting on (i) an amendment to the Company's Certificate of Incorporation to increase the authorized capital stock of the Company from 60,000,000 to 95,000,000 shares, and (ii) a proposal for the adoption of an employee stock plan.

The above proposals were approved by the following votes: (i) Increase of authorized capital stock—12,109,810 for, 769,910 against and 154,873 abstaining; (ii) Employee stock plan—7,496,044 for, 695,270 against and 4,843,279 abstaining.

On November 10, 1983, 7,800,000 shares of common stock were placed into a trust for the employee stock plan.

A meeting has been called for March 5, 1984 of the holders of the Company's 5¼% Convertible Subordinated Debentures due 1993 (the "Debentures") for the purpose of voting on a proposed amendment to the indenture (the "Indenture") pursuant to which the Debentures were issued, so as to delete from such Indenture a restriction on the Company's ability to pay cash dividends on its capital stock, and to reduce the price at which Debentures may be converted into Common Stock of the Company from the current $7.71 per share to $6.50 per share (subject to any future adjustment pursuant to the anti-dilution provisions of the Indenture). The Company has stated that subject to receiving approval of such proposal, it presently intends, but has not committed, to pay the dividend arrearages on its $2.00 Series A Preferred Stock (presently $4,785,080). The payment of such arrearages would depend on various factors, including the Company's financial condition, capital requirements, earnings and terms of financings.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

As of December 31, 1983, the 24,085,790 shares of outstanding Western common stock were held by approximately 25,000 individuals and institutions, including 7,800,000 shares being held in trust under the Employee Stock Plan (See Note 12 to Financial Statements). There were 1,196,270 shares of the preferred stock outstanding held by approximately 1,200 individuals and institutions. The Common Stock and Series A Preferred Stock are listed on the New York and Pacific Stock Exchanges. The following table sets forth the high and low sale prices on the New York Stock Exchange as reported by the National Quotation Bureau, Inc., for the periods indicated:

	Common Stock		Series A Preferred Stock	
	High	Low	High	Low
1982				
1st quarter	5⅝	3½	16	10
2nd quarter	6¼	3⅜	15½	8⅝
3rd quarter	6⅛	3¼	15¾	9½
4th quarter	6	3¼	15	10
1983				
1st quarter	7¼	4⅞	18¼	13
2nd quarter	6½	4¾	16½	12¾
3rd quarter	6¾	3⅞	17½	11⅝
4th quarter	4⅞	4	14	11⅞

Because of continuing losses and restrictions or prohibitions in various loan agreements, the Company has not paid dividends on its Common Stock since the third quarter of 1980. Resumption of dividends on the Common Stock will depend upon the Company's earnings, financial condition, capital requirements and terms of financings. The Company does not anticipate the payment of cash dividends on the Common Stock in the foreseeable future.

Payments of quarterly dividends on the Company's $2.00 Series A Cumulative Convertible Preferred Stock (the "Series A Preferred Stock") have been omitted beginning the first quarter of 1982 and are restricted by certain loan agreements. The total amount of the dividends in arrears at January 1, 1984 was $4,785,080. If the Company does not pay such dividend arrearages, holders of preferred stock will have the right to elect two additional members to the Company's Board of Directors at the annual meeting of shareholders currently scheduled for May 10, 1984. So long as dividends remain in arrears on the Series A Preferred Stock, no cash dividends may be paid on the Common Stock. See "SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS."

ITEM 6. SELECTED FINANCIAL DATA

(In millions except ratios and per share amounts)

The following financial information should be read in conjunction with the Financial Statements and Notes thereto contained elsewhere herein.

Operating Information:

	Year Ended December 31,				
	1983	1982	1981	1980	1979
Operating Revenues:					
Passenger	$ 993.4	$ 925.8	$ 949.6	$ 887.9	$827.7
Cargo	72.2	68.0	62.9	63.8	61.2
Contract service and other	77.0	71.5	47.3	44.0	43.2
Total operating revenues	1,142.6	1,065.3	1,059.8	995.7	932.1
Operating Expenses:					
Wages, salaries, and employee benefits	422.7	368.5(a)	403.4	384.2	356.6
Fuel	320.0	312.0	326.6	296.4	225.7
Other	456.3	415.6	395.8(b)	360.9	331.6
Total operating expenses	1,199.0	1,096.1	1,125.8	1,041.5	913.9
Operating income (loss)	(56.4)	(30.8)	(66.0)	(45.8)	18.2
Interest expense, net	(51.5)	(46.7)	(45.0)	(38.5)	(24.9)
Gain on asset dispositions and other income, net	11.6	14.0	18.2	35.1	46.1
Earnings (loss) before income taxes, extraordinary item and cumulative effect of a change in accounting principle	(96.3)	(63.5)	(92.8)	(49.2)	39.4
Income taxes (benefits)	(0.3)	(3.6)	(19.4)	(19.6)	(2.1)
Earnings (loss) before extraordinary item and cumulative effect of a change in accounting principle	(96.0)	(59.9)	(73.4)	(29.6)	41.5
Extraordinary Item:					
Gain on pension plan terminations(c)	41.5	15.9	—	—	—
Net earnings (loss)	$ (54.5)	$ (44.0)	$ (73.4)	$ (29.6)	$ 41.5
Earnings (Loss) per Common Share:					
Primary:					
Before extraordinary item	$ (6.22)	$ (4.78)	$ (5.81)	$ (2.46)	$ 2.99
Net earnings (loss)	(3.60)	(3.56)	(5.81)	(2.46)	2.99
Fully Diluted:					
Before extraordinary item	(d)	(d)	(d)	(d)	2.31
Net earnings (loss)	(d)	(d)	(d)	(d)	2.31
Cash dividends paid per share of Common Stock(e)	—	—	—	0.25	0.40

Balance Sheet Information:

	At December 31,				
	1983	1982	1981	1980	1979
Current assets	$197.2	$168.7	$167.2	$191.1	$181.4
Property and equipment—net	595.0	634.8	662.4	718.8	634.6
Total assets	812.2	808.6	834.6	917.0	821.4
Current liabilities	262.7	284.1	278.4	246.5	211.4
Long-term obligations less current installments	437.9	411.5	401.9	435.1	318.3
Shareholders' equity	86.7	77.6	121.7	197.3	232.6

(a) During the third quarter of 1982 actuarial assumption changes to pension plans were made reducing the net loss by $4.2 or $0.32 per share (primary) for the third quarter and first nine months of 1982 and by $7.2 or $0.55 per share (primary) for the year 1982.

(b) Effective January 1, 1981, Western revised its procedures for recognizing commission expense to more closely identify the expense with the period in which the related revenue is recognized. This change reduced the 1981 net loss by $3.3 or $0.26 per share (primary).

(c) See Note 4 to Financial Statements.

(d) Fully diluted earnings per share amounts are equal to primary because the inclusion of the assumed exercise of stock options and warrants and conversion of convertible securities would be anti-dilutive.

(e) The Company does not anticipate the payment of cash dividends on its Common Stock in the foreseeable future. See "MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS."

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Years Ended December 31, 1983, 1982 and 1981

Despite a significant improvement in the third and fourth quarters of 1983 compared to 1982, Western reported a higher operating loss for the year 1983 and a net loss for the fourth consecutive year. Operating income for the second half of 1983 was $2.8 million, a $19.6 million improvement from the 1982 second half. This improvement, however, was more than offset by a $45.2 million increase in the first half operating loss compared to the 1982 first half, resulting in the operating loss for the year increasing to $56.4 million in 1983 from $30.8 million in 1982.

During 1981 Western responded to its losses by reducing ASMs. However, operating expenses and unit costs continued to rise. In 1982 management embarked on a rebuilding program that resulted in an extensive route realignment and creation of a connecting hub at Salt Lake City beginning May 1, 1982. The major objectives of the program were to create a system that would enable Western to control a greater share of the travel emanating from cities served and increase utilization of existing resources.

In 1982 Western's total operating expenses decreased 2.6 percent from 1981 levels despite a 4.3 percent increase in ASMs and a four percent increase in traffic. Although the Company lowered its unit costs through increased flying, the gain in passenger traffic was obtained in part from selling Western's product at a lower price. Yield (revenue per passenger mile) declined to $.1042 in 1982, down 6.4 percent from 1981. Passenger revenue declined slightly as the four percent increase in traffic was more than offset by lower yield. The decline in yield resulted from a greater proportion of passengers traveling on discount fares and greater discounts in those fares, both due to increased fare competition.

The 2.5 percent decline in passenger revenue in 1982 was offset by a 51.3 percent rise in contract service and other revenues, primarily for services provided to other airlines. Total revenues, therefore, rose slightly. The revenue increase, combined with the decline in operating expenses, reduced the operating loss from $66.0 million in 1981 to $30.8 million in 1982.

Significant factors in 1982 operating expenses include the following:

During early 1982 Western obtained pay cuts and/or productivity improvements from most of its employee groups and reduced the number of employees. These actions caused a decrease in wages, salaries and employee benefits, despite increased ASM production.

Certain actuarial assumptions were changed in 1982 for some of the Company's pension plans, causing an additional $7.2 million reduction in labor expense.

Fuel expense declined four percent in 1982 due to price reductions that more than offset a two percent increase in consumption.

Other operating expenses included costs such as commissions, food and beverage, aircraft and ground equipment rentals, advertising, aircraft maintenance and expenses related to contract services provided to other aircraft operators. Contract service expenses increased $13.9 million in 1982, while related revenues rose 126 percent from $20.5 million to $46.4 million.

The disastrous fare wars that began in mid-1982 continued into the first half of 1983. At the same time, Western's operating costs increased, primarily due to the significant expansion begun in May 1982. Higher traffic was obtained in part by selling Western's product at a lower price and therefore failed to produce a revenue increase sufficient to cover the increased operating costs. The operating loss increased from $14.1 million for the first half of 1982 to $59.2 million in the same 1983 period.

During the second half of 1983, Western's new management began to redirect the Company's efforts toward the business traveler and took other steps designed to return the carrier to profitability.

Major areas of emphasis included: (i) implementation of a "Partnership Plan," including cash wage concessions from each of the Company's domestic labor groups in return for establishment of an employee stock plan, a cash profit sharing plan and the right to name two nominees for election to the Board of Directors; (ii) strengthening the Salt Lake City hub and developing Los Angeles International Airport as a more effective second hub to feed Hawaii, Canada and Mexico; (iii) focusing scheduling and marketing efforts to attract the frequent business traveler; (iv) adjusting capacity to meet seasonal fluctuations in demand; (v) emphasizing short-haul narrow body aircraft suitable for the hub-and-spoke system; (vi) establishing more effective revenue and yield management systems; and (vii) instituting improved cost control measures.

Certain of these steps, combined with the general economic recovery, resulted in a significant yield increase compared to the second half of 1982 and the first half of 1983, with only a slight decrease in load factor. Revenues rose eight percent from the 1982 second half, while operating expenses were up only 4.4 percent, and Western recorded an operating profit for the second half for the first time since 1978.

For the year 1983, Western's capacity (ASMs) rose 10.1 percent, while traffic (RPMs) rose only 5.9 percent. Load factor declined to 56.5%, the lowest level since 1971. The significant yield increases in the second half of 1983 resulted in a slightly higher yield for the year ($.1055 vs. $.1042). Revenue rose 7.3 percent. Although unit costs (cost per ASM) declined from $.0725 to $.0720, total operating costs rose 9.4 percent due primarily to increased flying and higher labor rates. Some of the wage concessions obtained in early 1982 expired in early 1983. New wage concessions were obtained from all domestic labor groups beginning in October and November 1983.

Increased flying, combined with institution of service to several cities not previously served, required additional employees in 1983. Fuel expense and other operating expenses also rose as a result of the increased flying and higher traffic levels. Fuel expense rose only 2.6 percent, as lower prices substantially offset a 10.6 percent increase in fuel used. Other operating expenses rose 12.2 percent, reflecting significant increases in ground handling services purchased from other airlines, landing fees, rents, maintenance, food and beverage, commissions to travel agents, and crew travel expenses.

Interest expense rose 10.4 percent, reflecting both higher debt levels and higher rates resulting from the Company's refinancing activities.

Gains on asset dispositions were $16.9 million, $7.4 million and $9.0 million in 1981, 1982 and 1983, respectively.

Termination of certain pension plans resulted in extraordinary gains of $15.9 million and $41.5 million in 1982 and 1983, respectively.

Liquidity and Capital Resources

Liquidity

Western's cash and cash equivalents totalled $46.3 million at December 31, 1983, down from $47.4 million at December 31, 1982, and up from $24.1 million at December 31, 1981. The Company's working capital deficit was $65.5 million at December 31, 1983, down from $115.4 million at December 31, 1982, partly as a result of refinancings completed in 1983 (which resulted in net cash proceeds to the Company of approximately $35 million). Western's cash balances fluctuate significantly from day to day, and have been significantly reduced since December 31, 1983 due to operating losses. Because airlines typically have no product inventories and revenues are generated principally by utilizing long-term assets, minimal or negative working capital balances are not uncommon. Since mid-1981 cash generated from operations has not been sufficient to fund debt repayment. However, Western has made all debt repayments by supplementing cash from operations with cash from other sources.

In order to maintain liquidity during 1981, 1982 and 1983, Western sold certain assets, terminated certain pension plans, deferred progress payments on aircraft purchase contracts and instituted new borrowing and financing arrangements. The most significant of these transactions were as follows:

In December 1981 Western sold two Boeing 737 aircraft for $11 million and leased back the aircraft.

In April 1982 Western (a) sold for $21 million the conditional sales contracts covering an earlier sale of two DC-10 aircraft, and (b) terminated a pension plan and received $15.9 million in cash.

During December 1982 Western sold privately $12.5 million principal amount of 12 percent convertible subordinated debentures due December 1992. These debentures are convertible into Common Stock at $5.35 per share, subject to adjustment in certain cases. Interest is payable semiannually.

In December 1982 Western entered into a term loan and security agreement to borrow $33.4 million from an affiliate of an aircraft manufacturer. At the same time, Western placed an order for three 737-300 aircraft and utilized $3 million of the proceeds as deposits for those aircraft. The balance of this loan at December 31, 1983, was $7.4 million after prepayment of $21.9 million in conjunction with a public offering in December 1983. The interest rate is two percent above the London InterBank Offered Rate ("LIBOR"). Notes under this agreement are secured by certain spare engines and ground equipment.

In January 1983 Western entered into a $30 million revolving credit agreement with a group of financial institutions. Upon signing the agreement and drawing down $20 million, Western paid a fee of ¼ of one percent of the commitment and issued warrants to purchase 696,774 shares of Common Stock at $5.40 per share subject to adjustment. This agreement terminated and borrowings under the agreement were repaid in June 1983. At December 31, 1983, after adjustment, 709,921 warrants were outstanding, convertible into Common Stock at $5.30 per share.

In January 1983 the Company terminated a pension plan and received $33.4 million in cash during the year.

In early 1983 the Company sold to another carrier its leasehold interest in passenger facilities at Denver's Stapleton International Airport for $9 million.

In June 1983 the Company completed a units offering consisting in the aggregate of $90 million principal amount 10¾% Senior Secured Trust Notes due June 15, 1998, 3,240,000 shares of Common Stock and warrants to purchase an additional 9,000,000 shares of Common Stock. The net proceeds of approximately $84 million were used in part to prepay $78 million of debt, including $20 million drawn down under the $30 million revolving credit agreement. Approximately $55 million of the debt prepaid would have become due within twelve months from the date of prepayment. The prepayment of debt allowed release of related collateral.

In conjunction with the units offering, Western obtained an agreement from the aircraft manufacturer to which $14.9 million in advance deposit payments were due during the period August 1983 through June 1984 to finance payment of such deposits through the manufacturer until after June 1984. In November 1983 Western obtained agreement to further delay net cash disbursements for the above deposits and an additional $10.4 million of deposit payments due during the period July 1984 through September 1984 by financing them through the manufacturer until after September 1984.

In September 1983 Western entered into a credit facility to provide it with a revolving line of credit of $22 million through August 31, 1984. Borrowings under the agreement bear interest at 1⅜ percent above a fluctuating base rate and are secured by a first lien on certain aircraft and spare parts with an appraised value of approximately 250 percent of the maximum amount available under the credit line and a junior lien on certain other collateral. Western has not drawn down any amounts under the credit agreement. Except to the extent the Company elects to extend this credit line, as set forth below, all outstanding borrowings thereunder must be repaid by August 31, 1984, and such repayment and termination of the agreement would release collateral with an appraised market value at April 1, 1983, of $47 million.

In December 1983 the Company's lenders agreed to extend the credit agreement beyond August 31, 1984, to provide an $11 million revolving line of credit through June 30, 1985. As a condition to extension of the agreement, the Company issued to the lenders 10 year warrants to purchase 819,000 shares of Common Stock at a purchase price per share of $5.16, subject to adjustment. Such warrants are not exercisable prior to September 1, 1984, and will terminate if the Company elects not to extend the credit agreement. If the Company elects to extend the credit agreement, all outstanding borrowings in excess of $11 million at August 31, 1984, must be repaid on such date and no collateral will be released.

In December 1983 the Company also completed an offering of $65 million principal amount of 14% Senior Secured Convertible Notes due December 1, 1998. These notes are convertible into Common Stock at $5.16 per share, subject to adjustment, and require an annual sinking fund payment of $6.5 million starting December 1, 1989. The net proceeds of approximately $61 million were used in part to prepay $29 million of debt. The prepayment of debt allowed release of related collateral.

The airline industry in general has recently experienced a reluctance on the part of the industry's traditional lenders to make further commitments to provide working capital or finance capital expenditures.

Western's financial resources are not as great as those of certain of its competitors and, therefore, adverse economic developments that can be absorbed by companies with greater resources might substantially affect the ability of Western, with its more limited resources, to meet its obligations.

Financial Covenants

The credit agreement previously described and a related collateral agreement which also covers other indebtedness of the Company contain two principal financial covenants. One covenant requires the maintenance of adjusted net worth (defined as tangible net worth plus the long-term portion of subordinated indebtedness) of not less than $45 million prior to September 30, 1985, and increasing to $200 million by October 1989. The second covenant requires that the ratio of debt (defined to include lease obligations and other liabilities but excluding the long-term portion of subordinated indebtedness) to adjusted net worth cannot exceed eleven to one prior to September 30, 1985, and declining to a ratio of three to one by October 1989. As of December 31, 1983, the Company had adjusted net worth of $104.1 million and debt of $451.3 million, and the debt ratio described above was 4.33 to one. The credit agreement also places restrictions on the payment of dividends by Western. In addition, the collateral agreement requires Western to maintain certain specified levels of collateral coverage during the period from July 1, 1984 to June 30, 1995. Since substantially all of Western's property and equipment is subject to liens, failure to maintain collateral at such specified levels could result in unscheduled cash payments by Western.

In the future, if Western were unable to comply with covenants under its loan agreements and waivers of lenders were not obtained, the Company could be declared in default under those loan agreements. In such event, the lenders would have the right to exercise legal remedies against the Company, including accelerating the payment of the principal amount of the loans and seeking to foreclose on or otherwise obtain possession of substantially all of the Company's assets.

Capital Resources

In order to expand operations at its Salt Lake City hub, Western leased two new Boeing 737-200 aircraft in December 1982 for a term of 12 years with options to extend the lease and/or purchase the aircraft. Western leased two additional used Boeing 737-200 aircraft in 1983 from another airline for a term of three years with an option to extend for an additional year.

At December 31, 1983 Western had on order from the manufacturer three Boeing 737-300 aircraft for delivery in 1985 and six Boeing 767 aircraft for delivery in 1986. In January 1984 Western cancelled orders for the six Boeing 767 aircraft and placed new orders for six Boeing 737-200 aircraft for delivery in the fourth quarter of 1984, six Boeing 737-300 aircraft for delivery in 1986 and 1988, and six Boeing 737-200 aircraft for delivery in 1987. The purchase price of all aircraft on order is approximately $460 million, of which $25.0 million is already on deposit. There can be no assurance that long-term secured debt or lease financing will be available to finance these acquisitions. See Note 3 to Financial Statements.

ITEM 8. FINANCIAL STATEMENTS

ACCOUNTANTS' REPORT

The Board of Directors
Western Air Lines, Inc.:

We have examined the balance sheets of Western Air Lines, Inc. as of December 31, 1983 and 1982 and the related statements of operations, shareholders' equity and changes in financial position for each of the years in the three-year period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In connection with our examinations of the financial statements, we have also examined the supporting schedules as listed in the index located elsewhere in this Form 10-K.

In our opinion, the aforementioned financial statements present fairly the financial position of Western Air Lines, Inc. at December 31, 1983 and 1982 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis. Also in our opinion, the related supporting schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

PEAT, MARWICK, MITCHELL & CO.

Los Angeles, California
February 15, 1984

WESTERN AIR LINES, INC.

BALANCE SHEETS

(In thousands of dollars)

ASSETS

	December 31, 1983	December 31, 1982
Current Assets:		
Cash and cash equivalents	$ 46,336	$ 47,350
Receivables (less allowance for doubtful accounts of $8,758—1983 and $3,491—1982)	91,019	82,667
Flight equipment expendable parts at average cost (less allowance for obsolescence of $17,073—1983 and $16,364—1982)	21,238	21,362
Prepaid expenses	34,957	14,000
Other current assets	3,648	3,366
Total current assets	197,198	168,745
Property and Equipment at Cost:		
Flight equipment	851,831	850,957
Facilities and ground equipment	144,915	140,471
Deposits on equipment purchase contracts	35,108	27,017
	1,031,854	1,018,445
Less accumulated depreciation and amortization	436,879	383,691
	594,975	634,754
Other Assets	19,991	5,137
	$ 812,164	$ 808,636

See accompanying Notes to Financial Statements.

WESTERN AIR LINES, INC.

BALANCE SHEETS

(In thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 1983	December 31, 1982
Current Liabilities:		
Current installments of debt	$ 30,958	$ 43,038
Current installments of capital leases	12,353	9,406
Notes payable	3,642	13,109
Accounts payable	63,890	61,189
Airline traffic liability	78,822	89,821
Salaries, wages and vacation benefits payable	43,090	40,363
Other current liabilities	29,971	27,191
Total current liabilities	262,726	284,117
Long-term Obligations, Less Current Installments:		
Debt	337,424	300,671
Capital leases	100,429	110,856
	437,853	411,527
Deferred Credits and Other Liabilities:		
Deferred taxes on income	10,328	10,747
Deferred gain on sale and lease-back of aircraft	4,667	7,001
Other	9,930	17,599
	24,925	35,347
Shareholders' Equity:		
Preferred stock—authorized 25,000,000 shares, $2 Series A Cumulative Convertible, $25 stated value per share. Liquidation preference at stated value plus accrued and unpaid dividends, outstanding 1,196,270 shares—1983, and 1,196,870 shares—1982	29,907	29,921
Common stock—authorized 70,000,000 shares, $1 par value per share, outstanding 24,085,790 shares—1983 and 13,043,746 shares—1982	24,086	13,044
Additional paid-in capital	83,533	31,061
Retained earnings (deficit)	(50,866)	3,619
	86,660	77,645
Commitments and Contingent Liabilities		
	$812,164	$808,636

See accompanying Notes to Financial Statements.

WESTERN AIR LINES, INC.

STATEMENTS OF OPERATIONS

(In thousands of dollars except per share amounts)

	Year ended December 31,		
	1983	1982	1981
Operating Revenues:			
Passenger	$ 993,428	$ 925,735	$ 949,576
Cargo	72,195	68,020	62,983
Contract service and other	76,939	71,515	47,282
	1,142,562	1,065,270	1,059,841
Operating Expenses:			
Wages, salaries, and employee benefits	422,741	368,503	403,428
Fuel	319,980	311,999	326,606
Depreciation and amortization	59,379	61,751	63,632
Other	396,834	353,815	332,129
	1,198,934	1,096,068	1,125,795
Operating loss	(56,372)	(30,798)	(65,954)
Other Income (Expenses):			
Interest, principally on long-term obligations	(54,542)	(49,195)	(49,836)
Interest capitalized	2,977	2,508	4,805
Interest income	2,480	5,604	4,641
Gain on disposition of property and equipment	8,956	7,385	16,869
Other, net	166	994	(3,333)
	(39,963)	(32,704)	(26,854)
Loss before income taxes and extraordinary item	(96,335)	(63,502)	(92,808)
Income taxes (benefits)	(330)	(3,556)	(19,408)
Loss before extraordinary item	(96,005)	(59,946)	(73,400)
Extraordinary Item:			
Gain on pension plan terminations	41,520	15,930	—
Net loss	$ (54,485)	$ (44,016)	$ (73,400)
Loss per Common Share:			
Before extraordinary item	$ (6.22)	$ (4.78)	$ (5.81)
Extraordinary item	2.62	1.22	—
Net loss	$ (3.60)	$ (3.56)	$ (5.81)

See accompanying Notes to Financial Statements.

WESTERN AIR LINES, INC.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

(In thousands of dollars)

	Year ended December 31, 1983	1982	1981
Sources of Working Capital:			
Loss from operations, exclusive of extraordinary item	$(96,005)	$(59,946)	$(73,400)
Add (Deduct) Items Which did not Affect Working Capital:			
Depreciation and amortization	58,348	59,968	61,780
Deferred income taxes	(419)	(432)	(18,617)
Gain on disposition of property and equipment	(8,956)	(7,385)	(16,869)
Other	(2,977)	(2,508)	(4,005)
Total provided (used) by operations exclusive of extraordinary item	(50,009)	(10,303)	(51,111)
Extraordinary item	41,520	15,930	—
Portion of extraordinary item which did not affect working capital	(7,897)	(51)	—
Total provided by extraordinary item	33,623	15,879	—
Total provided (used) by operations	(16,386)	5,576	(51,111)
Proceeds from issuance of long-term obligations	123,928	62,986	73,212
Proceeds from disposition of property and equipment	10,290	9,269	61,208
Proceeds from issuance of common stock and warrants	31,325	—	—
Proceeds from issuance of common stock to Employee Stock Plan	32,175	—	—
Reimbursement of deposits and capital expenditures upon acquisition of flight equipment	—	—	15,457
Reclassification of pension plan liabilities to long-term liabilities	—	7,218	—
Other, net	—	—	4,000
Total sources	181,332	85,049	102,766
Applications of Working Capital:			
Reduction of long-term obligations including transfers to current liabilities	97,623	53,349	106,400
Purchase of and deposits on property and equipment	16,382	30,933	49,810
Cash dividends on preferred stock	—	—	2,394
Debt issue costs	7,735	—	—
Other, net	9,748	4,898	—
Total applications	131,488	89,180	158,604
Increase (decrease) in working capital	$ 49,844	$ (4,131)	$(55,838)
Summary of Increases (Decreases) in Working Capital:			
Cash and cash equivalents	$ (1,014)	$ 23,293	$(10,281)
Receivables, net	8,352	(26,856)	(12,336)
Flight equipment expendable parts, net	(124)	409	(5,955)
Prepaid expenses	20,957	4,761	5,006
Other current assets	282	(41)	(385)
Current installments of debt	12,080	(16,388)	(2,894)
Current installments of capital leases	(2,947)	(1,444)	(779)
Notes payable	9,467	6,891	(20,000)
Accounts payable	(2,701)	15,315	(17,539)
Airline traffic liability	10,999	(8,815)	9,052
Salaries, wages and vacation benefits payable	(2,727)	1,475	1,786
Other current liabilities	(2,780)	(2,731)	(1,513)
Increase (decrease) in working capital	$ 49,844	$ (4,131)	$(55,838)

See accompanying Notes to Financial Statements.

WESTERN AIR LINES, INC.

STATEMENTS OF SHAREHOLDERS' EQUITY

Years Ended December 31, 1983, 1982 and 1981

(In thousands of dollars)

	Series A Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Total Shareholders' Equity
Balance at December 31, 1980	$29,923	$13,031	$30,963	$123,429	$197,346
Exercise of stock options		12	90		102
Conversion of debentures		1	9		10
Cash dividends on preferred stock				(2,394)	(2,394)
Net loss				(73,400)	(73,400)
Balance at December 31, 1981	29,923	13,044	31,062	47,635	121,664
Other items	(2)		(1)		(3)
Net loss				(44,016)	(44,016)
Balance at December 31, 1982	29,921	13,044	31,061	3,619	77,645
Conversion of preferred stock	(14)	1	13		
Conversion of debentures		1	4		5
Issuance of common stock		3,240	14,580		17,820
Issuance of warrants			13,500		13,500
Issuance of common stock under Employee Stock Plan		7,800	24,375		32,175
Net loss				(54,485)	(54,485)
Balance at December 31, 1983	$29,907	$24,086	$83,533	$(50,866)	$ 86,660

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

(In thousands of dollars except per share amounts)

Note 1. Summary of Significant Accounting Policies

Property and Equipment

Owned property and equipment, exclusive of residual values, are depreciated over the estimated useful lives by the straight-line method. Assets recorded under capital leases are amortized over the life of the lease by the straight-line method. The estimated useful lives and residual values of owned aircraft are as follows:

Aircraft Type	Estimated Useful Life	Residual Value
DC-10	16 years	10%
727	15 years	15%
737	14 years	15%

Estimated useful lives of ground equipment range from four to ten years. Buildings and improvements on leased property are generally depreciated over the life of the lease. Amortization expense for assets recorded under capital leases is included in depreciation and amortization expense.

Interest Capitalized

Certain interest costs, primarily related to deposits on aircraft purchase contracts, are capitalized and amortized over the lives of the related assets.

Investment Credits

Investment credits are accounted for by the flow-through method.

Obsolescence of Flight Equipment Expendable Parts

An allowance for obsolescence of expendable parts is accrued over the estimated useful lives of the related aircraft types.

Revenue Recognition

Passenger sales are recorded as airline traffic liability, a current liability, until recognized as revenue as services are provided by Western, refunded, or billed by other carriers for transportation provided by them.

Cargo and contract service and other revenues are recognized as services are provided and billed.

Reclassifications

Certain amounts in the 1982 and 1981 financial statements have been reclassified to conform to the 1983 presentation.

Note 2. Lease Commitments

Western leases certain flight equipment and facilities and ground equipment. Lease terms for flight equipment are 11½ to 15 years for 727 aircraft, 2½ to 12 years for 737 aircraft, and 15 to 18 years for

Note 2. Lease Commitments—(Continued)

DC-10 aircraft. Lease terms for facilities and ground equipment range up to 29 years. Equipment under capital leases included in the balance sheets at December 1983 and 1982 were as follows:

	1983	1982
Flight equipment	$159,306	$159,306
Ground equipment	—	2,006
	159,306	161,312
Less accumulated amortization	75,570	66,620
	$ 83,736	$ 94,692

At December 31, 1983 minimum lease payments under leases expiring after December 31, 1984 were as follows:

	Capital Leases	Operating Leases
1984	$ 19,678	$ 23,910
1985	19,624	21,263
1986	19,630	18,388
1987	19,552	16,104
1988	19,741	15,172
Thereafter	90,581	124,995
Total minimum lease payments	188,806	$219,832
Less amount representing interest	79,864	
Present value of capital lease obligations	108,942	
Less current installments of capital leases	8,513	
Long-term capital lease obligations	$100,429	

Rental expense for operating leases amounted to $38,165, $33,222, and $25,967 in 1983, 1982, and 1981, respectively.

Note 3. Commitments and Contingent Liabilities

At December 31, 1983 Western had on order from the manufacturer three Boeing 737-300 aircraft for delivery in 1985 and six Boeing 767 aircraft for delivery in 1986. Western recorded deposits on these orders which amounted to $35,108 as of December 31, 1983 including capitalized interest of $10,071.

In January 1984 Western cancelled the orders for the six Boeing 767 aircraft and placed new orders for six Boeing 737-200 aircraft for delivery in the fourth quarter of 1984, six Boeing 737-300 aircraft for delivery in 1986 and 1988, and six Boeing 737-200 aircraft for delivery in 1987. The purchase price of all aircraft on order is approximately $460 million, of which $25.0 million is already on deposit.

Note 3. Commitments and Contingent Liabilities—(Continued)

Payments due under existing purchase commitments for aircraft and ground properties and equipment during the five years ending December 31, 1988 (after reflecting the cancellations and new aircraft orders in January 1984) are:

1984	$116,057
1985	72,854
1986	87,573
1987	107,743
1988	61,327
	$445,554

In April 1982 Western sold certain receivables to Associates Commercial Corporation ("Associates") which had been received in connection with the sale in 1981 of two DC-10 aircraft. If the buyer of the aircraft defaults under the agreement with Associates, Western would be obligated to take over payment to Associates of the balance of the receivables, after which Western would have the right under the agreement to take title to and possession of the related aircraft. The buyer's most recent lessee of those aircraft filed for protection under Chapter 11 of the federal bankruptcy laws in late 1983, and the buyer has not realized any revenue from those aircraft since then. However, the buyer has remained current in its payments to Associates. The balance of the receivables at December 31, 1983 was $18,347. See Note 10.

For information regarding the status of legal proceedings at December 31, 1983, see "LEGAL PROCEEDINGS" elsewhere in this Form 10-K.

Note 4. Retirement Plans

Western has retirement plans which cover substantially all employees. Western's contributions to the Company-sponsored plans, together with the participants' required contributions, are sufficient to fund current service costs annually and prior service costs over ten to twenty years. Actuarial gains and losses are amortized over ten-year periods. Western assumes an eight percent rate of return in determining the actuarial present value of accumulated plan benefits.

Western participates in a collectively bargained multi-employer pension plan covering its IBT-represented employees and is, therefore, subject to the provisions of the Multi-employer Pension Plan Amendments Act of 1980. Under this complex law, the union plan's Board of Trustees, as sponsor, is required to obtain an actuarial valuation of the present value of vested and nonvested accumulated plan benefits. Western has been advised that its share of the liability for unfunded vested benefits in this plan is not available. Accordingly, the table that follows excludes data applicable to this multi-employer pension plan.

A comparison of accumulated plan benefits and plan net assets for the Company-sponsored defined benefit plans follows:

	January 1,		
	1983	1982	1981
Actuarial Present Value of Accumulated Plan Benefits:			
Vested	$31,301	$120,550	$140,331
Nonvested	4,207	9,212	11,984
	$35,508	$129,762	$152,315
Net assets available for benefits	$38,208	$132,959	$163,995

Note 4. Retirement Plans—(Continued)

The amounts in the table above for 1983 do not include information regarding a defined benefit retirement plan for pilots, which Western terminated during the first quarter of 1983. The termination allowed Western to recover that portion of excess funds in the plan which related to Company contributions. Elimination of a deferred credit related to the plan of $8,115 and cash proceeds of $33,405 resulted in a gain of $41,520 ($2.62 per share) for the year ended December 31, 1983. The gain is reported as an extraordinary item. In conjunction with terminating the defined benefit retirement plan, Western made increased contributions to the defined contribution retirement plan for pilots in 1983. Western has pledged certain assets to secure its obligations regarding other employee benefits for pilots.

The amounts in the table above for 1983 and 1982 do not include information regarding a defined benefit retirement plan for non-union employees, which Western terminated during the second quarter of 1982. The termination allowed Western to recover excess funds, and as a result recognize $15,930 ($1.22 per share) as Other Income for the year ended December 31, 1982. This gain has been reclassified to an extraordinary item to conform to the 1983 presentation. The Company subsequently adopted a new, defined contribution, pension plan for non-union employees.

The cost of the retirement plans, including the union-sponsored plan, charged to operating expense was $27,578, $18,802, and $34,711 for 1983, 1982, and 1981, respectively. These costs included amortization of prior service costs over periods ranging from 10 to 20 years for certain of the plans.

Actuarial assumption changes to pension plans during 1982 decreased the retirement plan expense. Western adopted recommendations by its actuaries to revise the assumed rate of return used in determining the actuarial present value of accumulated plan benefits from six to eight percent. The effect of this and other changes decreased operating expense for the year by $7,173 ($0.55 per share). A further decrease of $6,486 ($0.50 per share) was caused by the termination of the retirement plan for non-union employees and a temporary reduction in Company contributions to a pilots' defined contribution retirement plan.

Note 5. Income Taxes

Income taxes are summarized as follows:

	1983	1982	1981
Current:			
Federal	$ (111)	$(3,124)	$ —
State	200	—	(791)
	89	(3,124)	(791)
Deferred:			
Provision	3,765	(2,290)	(12,974)
Operating loss carryforward	(4,184)	1,964	(5,091)
Investment credits	—	71	—
	(419)	(255)	(18,065)
Amortization of deferred investment credits	—	(177)	(552)
	$ (330)	$(3,556)	$(19,408)

Under applicable law, investment credits could be applied against 80 percent of Federal income tax liabilities in 1981 and 90 percent of the liability in 1982. The Tax Equity and Fiscal Responsibility Act of 1982 reduced the application to 85 percent for 1983 and beyond.

Note 5. Income Taxes—(Continued)

Deferred income taxes arise from timing differences between financial and tax reporting. The effects of these differences on income taxes are as follows:

	1983	1982	1981
Depreciation and amortization	$ 1,349	$(6,868)	$(13,409)
Sale of tax benefits	—	—	2,560
Capital leases	(416)	721	(1,754)
Interest capitalized	1,334	1,464	1,183
Employee benefits	326	717	(847)
Gain on sale and leaseback of flight equipment	1,074	1,074	—
Other	98	602	(707)
	$ 3,765	$(2,290)	$(12,974)

Reconciliations of income tax benefits at the United States statutory rate to the provision for income taxes follow:

	1983	1982	1981
Income taxes at the United States statutory rate	$(25,215)	$(21,884)	$(42,692)
Increases (reductions) in taxes resulting from:			
Effect of operating loss carryforward for which no tax benefit may be recognized	24,796	(13,017)	24,490
Amortization of deferred investment credits	—	(177)	(552)
Reversal of investment credits previously recognized on flow-through method	—	29,362	—
State income taxes net of federal income tax benefit	200	—	(427)
Capital gains	—	4,798	—
IRS audit adjustments	—	(2,452)	—
Other	(111)	(186)	(227)
Income tax benefits	$ (330)	$ (3,556)	$(19,408)

Minimal tax benefits have been recognized for 1983 because, for financial reporting purposes, virtually all benefits which could be recognized by offsetting deferred tax credits were recognized prior to 1983.

In 1981 Western intended to relinquish the right to carryback the 1981 net operating loss to offset prior years' taxable income, since the Company's tax liability in those prior years had been substantially eliminated by application of investment tax credits. During 1982 Western decided to carryback the 1981 loss to prior years and obtain a refund of the tax that had been paid. As a result, 1982 amounts shown above reflect increased benefit of net operating losses, substantially offset by reversal of previously recognized application of investment tax credits.

Net operating losses of $116,000 have not been utilized on tax returns. For income tax purposes, $34,100 expires in 1995, $18,900 expires in 1997 and $63,000 expires in 1998. For financial statement purposes, $77,000 of the carryforward has not been recognized of which $22,000 expires in 1997 and $55,000 expires in 1998.

Note 5. Income Taxes—(Continued)

Investment credits available to reduce future years' Federal income tax expense for financial and tax purposes amount to $57,200 at December 31, 1983. For income tax purposes, available credits expire in the following years:

1992	$ 2,700	1996	$ 2,200
1993	13,500	1997	600
1994	17,300	1998	1,900
1995	19,000		

In November 1981 tax benefits were sold under the provisions of the Economic Recovery Tax Act of 1981. The gain of $5,565 resulting from this sale is included in Other Income (Expenses) in the statements of operations.

Note 6. Debt and Pledged Assets

Long-term debt is comprised of:

	December 31, 1983	December 31, 1982
9.55% equipment trust certificates due May 1, 1993, with semi-annual principal payments of $3,349	$ 63,638	$ 72,609
10% equipment trust certificates due April 1, 1994, with quarterly principal payments of $1,000	40,992	44,992
Floating-rate equipment trust certificates due June 30, 1995 (interest rate 10.8% at December 31, 1983), with semi-annual principal payments of $2,609	55,073	60,000
13.29% installment notes due May 1, 1995, with semi-annual principal payments of $1,100	25,300	27,500
Installment note due October 31, 1987	*	2,752
Floating-rate bank notes due September 1, 1985 with quarterly principal payments of $2,000	*	22,000
Floating-rate insurance installment notes due September 1, 1984 with annual principal payments of $7,000	*	14,000
7¾% installment notes due May 4, 1986, with semi-annual principal payments of $352	*	2,461
Floating-rate note payable to manufacturer due February, 1985 with monthly installments of $1,500 starting in October, 1984	7,350	33,400
Deferred deposits with manufacturer, interest at prime rate plus ¼%	11,750	11,257
8¾% installment note due November 16, 1985	*	9,217
10¾% senior secured trust notes due June, 1998—net of $31,053 unamortized discount at December 31, 1983, with annual sinking fund payments of $9,000 starting June 15, 1989	58,947	—
14% senior secured convertible notes due December 1, 1998, with annual sinking fund payments of $6,500 starting December 1, 1989	65,000	—
5¼% convertible subordinated debentures due February 1, 1993, with annual sinking fund payments of $1,500	20,995	22,500
12% convertible subordinated debentures due December 1992	12,500	12,500
10% subordinated sinking fund notes due April 15, 1984	6,837	8,521
	368,382	343,709
Less current installments	(30,958)	(43,038)
	$337,424	$300,671

* Prepaid upon issuance of 10¾% senior secured trust notes or 14% senior secured convertible notes.

Note 6. Debt and Pledged Assets—(Continued)

During 1982 Western entered into a term loan and security agreement to borrow $33,400 from an affiliate of an aircraft manufacturer. In December 1983, Western prepaid $21,875 in conjunction with the issuance of the 14% senior secured convertible notes. After such prepayment, the term loan requires payments totalling $4,500 in the fourth quarter of 1984 with the remaining balance payable in the first quarter of 1985. The interest rate is the LIBOR rate plus 2 percent. In addition to the scheduled term loan payments, an additional interest payment to the lender is due March 28, 1989 equal to 15 percent of the proceeds from the sale of three 727 and three 737 aircraft and installed engines or 15 percent of the fair market value of such aircraft and engines as of that date. This loan may be prepaid at any time without premium or penalty. These term notes are currently secured by four spare engines and ground equipment.

The 12% convertible subordinated debentures are convertible into 2,336,449 shares of Common Stock at $5.35 per share, subject to adjustment in certain cases, and mature in ten years. Interest is payable semi-annually.

Notes payable at December 31, 1983, consisted of loans payable to three financial lending institutions. These notes are secured by Western's Universal Air Travel Card, air freight, and Western Travelcard receivables, which total $17,659 at December 31, 1983. Under these agreements Western can borrow, up to a limit, a percentage of the receivable balances. The interest rates are prime plus 3.25 percent on two loans and prime plus four percent on the other loan.

Effective January 18, 1983, Western entered into a $30,000 revolving credit agreement with a group of financial institutions. Upon signing the agreement, Western paid a fee of ¼ of 1% of the commitment and issued 550,000 warrants for the purchase of Common Stock. The Company drew down $10,000 in the first quarter of 1983 and another $10,000 in April 1983 under this line. A borrowing fee of $82 was paid and 146,774 additional warrants were issued in connection with these borrowings. All amounts drawn down under the revolving credit agreement were repaid in June 1983. The exercise price and number of warrants are subject to adjustment. At December 31, 1983, 709,921 shares of common stock were reserved for exercise at a price of $5.30 per share. The warrants expire on January 18, 1993.

The following schedule shows the amount of long-term debt due in the five years ending December 31, 1988 (excluding aircraft orders placed in January, 1984—Note 3).

1984	$30,958
1985	22,466
1986	27,251
1987	19,615
1988	19,615

At December 31, 1983, 2,723,087 shares of Common Stock were reserved for conversion of 5¼% debentures at a conversion price of $7.71 per share.

In June 1983 the Company completed a public offering of units, consisting in the aggregate of $90,000 principal amount 10¾% Senior Secured Trust Notes due June 15, 1998, 3,240,000 shares of Common Stock, and warrants to purchase 9,000,000 shares of Common Stock. The net proceeds of approximately $84,000 were used in part to prepay $78,021 of debt. Approximately $55,000 of the debt prepaid would

Note 6. Debt and Pledged Assets—(Continued)

have become due within the next twelve months. The repayment of debt allowed release of related collateral. The $90,000 of equipment trust notes were recorded net of $31,320 discount, resulting in a net decrease in debt of $19,341. The warrants are convertible at $9.50 per share, subject to adjustment, and expire on June 15, 1993. The exercise price may be paid using 10¾% Senior Secured Trust Notes, which will be accepted at par. The expiration date may be accelerated by the Company to no earlier than June 15, 1988 and the warrants may be called on or after June 15, 1986 if the price of the common stock attains specified levels.

Western also entered into a new revolving credit agreement in September 1983 which provides a $22,000 line of credit through August 31, 1984. In December 1983 the lenders under the Company's revolving credit agreement agreed to extend the revolving credit line from August 31, 1984 to June 30, 1985, if the Company so elects, at a reduced maximum amount of $11,000. In conjunction with this agreement, the Company issued to the lenders warrants to purchase 819,000 shares of common stock at $5.16 per share, subject to adjustment. These warrants will be exercisable only if the Company elects to extend the line of credit, and will expire on August 31, 1993. The revolving credit agreement and a related agreement affecting other indebtedness of the Company contain two principal financial covenants. One requires the maintenance of adjusted net worth (defined as tangible net worth plus the long-term portion of subordinated indebtedness) of not less than $45,000 prior to September 30, 1985, increasing to $200,000 by October 1989. The second requires that the ratio of debt, defined to include lease obligations and other liabilities but to exclude the long-term portion of subordinated indebtedness, to adjusted net worth, cannot exceed eleven to one prior to September 30, 1985, declining to a ratio of three to one by October 1989. As of December 31, 1983, the Company had adjusted net worth of $104,100 and debt, as defined, of $451,300 and the ratio described above was 4.33 to one. The revolving credit agreement also places certain restrictions on dividend payments. The revolving credit agreement is secured by liens on certain aircraft and spare parts.

In December 1983, the Company issued $65,000 of 14% Senior Secured Convertible Notes due December 1, 1998, which are convertible into 12,596,899 shares of Common Stock at $5.16 per share, subject to adjustment. The net proceeds of approximately $61,200 were used in part to prepay $28,732 of debt, purchase an insurance policy with a single premium of $701, purchase a $1,000 certificate of deposit to be used as collateral, and place $2,400 in escrow for at least 10 years.

Substantially all of Western's property and equipment is pledged as collateral for debt and other obligations. Several of the agreements require that collateral be maintained at specified levels.

Note 7. Stock Options

Western has two stock option plans for officers and key personnel. The first plan was adopted in 1974, and provides for options to purchase a maximum of 1,030,000 shares of Common Stock at prices not less than the fair market value of the Common Stock at date of grant. Options granted under the 1974 Plan are not intended to qualify as "Incentive Stock Options" under the Internal Revenue Code. The options under this plan are exercisable in equal annual increments over a five-year period and expire ten years after the date of grant. No options may be granted under the 1974 Plan after January 20, 1984. The second plan is the Executive Stock Option and Stock Appreciation Right Plan (the "1982 Plan"). The 1982 Plan provides for granting of incentive stock options, non-qualifying stock options, and stock appreciation rights. A maximum of 1,800,000 shares of Common Stock may be issued under this plan. Options granted under the 1982 Plan expire ten years from the date of grant and the purchase price specified in each option may not be less than the fair market value of the Common Stock at the date of the grant.

Note 7. Stock Options—(Continued)

The balances of options granted under the plans follow:

	1974 Plan		1982 Plan	
	Number	Average Price	Number	Average Price
Options Granted and Outstanding at:				
December 31, 1983	561,250	$8.49	802,500	$5.14
December 31, 1982	832,415	$7.37	1,747,500	$4.15
Options Exercisable at:				
December 31, 1983	556,750	$8.48	505,500	$4.89
December 31, 1982	661,115	$8.20	1,747,500	$4.15

At December 31, 1983 and 1982, 962,885 shares of Common Stock were reserved for the exercise of current and future grants under the 1974 Plan, and 1,800,000 shares were similarly reserved under the 1982 Plan.

Note 8. Loss per Common Share

Loss before extraordinary item and net loss per common share are calculated as follows:

Primary:

	Year Ended December 31,		
	1983	1982	1981
Loss Before Extraordinary Item per Common Share:			
Loss before extraordinary item	$(96,005)	$(59,946)	$(73,400)
Preferred stock cash dividends	(2,393)*	(2,394)*	(2,394)
Loss before extraordinary item applicable to Common Stock	$(98,398)	$(62,340)	$(75,794)
Loss before extraordinary item per common share, primary	$ (6.22)	$ (4.78)	$ (5.81)
Net Loss per Common Share:			
Net loss	$(54,485)	$(44,016)	$(73,400)
Preferred stock cash dividends	(2,393)*	(2,394)*	(2,394)
Loss applicable to Common Stock	$(56,878)	$(46,410)	$(75,794)
Net loss per common share, primary	$ (3.60)	$ (3.56)	$ (5.81)
Weighted average shares outstanding (in thousands)	15,821	13,044	13,037

* 1983 and 1982 preferred stock dividends are in arrears.

Fully Diluted:

Fully diluted earnings per share are not presented, as the exercise of stock options and conversion of common stock warrants, convertible subordinated debentures, and preferred stock into Common Stock would be anti-dilutive.

Note 9. Preferred Stock

The shares of $2 Series A Preferred Stock are convertible into Common Stock at the rate of 2.5 shares of Common Stock for each share of Series A Preferred Stock, subject to adjustment under certain conditions, and may be redeemed at any time at the option of Western. The redemption price of $25.80 at December 31, 1983, decreases periodically until 1987 after which it remains at $25 per share. At December 31, 1983, 2,990,675 shares of Common Stock were reserved for conversion of Series A Preferred Stock.

The Company has omitted payment of the quarterly dividends on the Series A Preferred Stock beginning the first quarter of 1982. The total amount of the dividends in arrears at January 1, 1984 was $4,785. Various loan agreements currently prohibit payment of dividends on preferred stock. Because more than six quarterly dividends have been omitted, holders of preferred stock have the right (unless all dividend arrearages have been cured) to elect two additional members to the Company's Board of Directors at the next annual meeting of shareholders.

The Company has stated that it intends, but has not committed, to pay such arrearages if it obtains from holders of its 5¼% Convertible Subordinated Debentures approval of a proposed amendment which would remove from the indenture covering those debentures a restriction on the payment of cash dividends on the Company's capital stock. The payment of such arrearages would depend on various factors, including the Company's financial condition, capital requirements, earnings and terms of financings.

Note 10. Related Party Transactions

Since January 1981 Western has entered into several agreements with companies owned or controlled by George E. Batchelor, who was, during the period, a holder of in excess of five percent of the Company's outstanding Common Stock.

In March 1981 Western sold two DC-10 aircraft to a company controlled by Mr. Batchelor. In April 1982 Western sold, with recourse, the related conditional sales contracts receivable to Associates Commercial Corporation for $21,000 in cash. See Note 3 to Financial Statements.

In March and June 1981 Western entered into agreements with companies controlled by Mr. Batchelor, pursuant to which Western maintained the two DC-10 aircraft for the company which purchased them and/or its lessee. Under these agreements, Western was compensated for the services performed at rates based on Western's direct maintenance costs per flight hour, subject to renegotiation semi-annually on the basis of increases in such costs. The agreement was for a term of 50 months expiring in August 1985, but subject to termination by either party for "good cause." In April 1982 in connection with the transaction described in the preceding paragraph, Western agreed to provide maintenance under the terms of these maintenance agreements for two additional DC-10 aircraft then being purchased by a company controlled by Mr. Batchelor from Laker Airways. In July 1983 Western gave notice of termination of those maintenance agreements based upon the failure of the company controlled by Mr. Batchelor, and its lessee, to make payments when due and filed an action in the Superior Court of Los Angeles, California seeking damages from both those parties for breach of contract and seeking certain declaratory relief. While that action was in the preliminary stages of discovery, Western continued to maintain the original two DC-10 aircraft for a subsequent lessee of Mr. Batchelor's company under a separate short term agreement. That agreement was terminated concurrent with the bankruptcy of such subsequent lessee, and Western presently is continuing to store and preserve the aircraft while the relative rights and obligations of all parties are being determined by the courts. In the meantime, Mr. Batchelor's company is seeking to collect upon a letter of guarantee issued by a financing institution covering Western's performance of maintenance under the original maintenance agreement.

In December 1981 Western sold to, and leased back from, companies controlled by Mr. Batchelor two 737 aircraft for an aggregate cash price of $11,000. These leases extend over four years with monthly rental payments of $130 per aircraft, with Western having the right to extend the leases for two additional one-year periods.

Note 10. Related Party Transactions—(Continued)

In December 1982 Western leased two new 737-200 aircraft from a subsidiary of Alaska International Industries, Inc. ("AII"). AII is wholly owned by Neil G. Bergt, who was Chairman and Chief Executive Officer of Western from December 1981 to April 1983. The leases are for a term of 12 years with options to extend for two years at fair rental value and/or purchase the aircraft at fair market value subject to specified minimum amounts at the end of the fifth and each subsequent year. The liability for these capital leases at December 31, 1983 was $20,533. The rental is $160 per aircraft per month. In addition to amounts paid pursuant to the leases, Western paid $1,150 to AII and its subsidiaries during 1982 to reimburse them for expenditures incurred on behalf of Western for equipment, facilities and personnel. Approximately $1,000 of this amount was paid for reimbursement of expenses billed by AII in connection with Mr. Bergt's aircraft expenses while traveling for Western and personnel on loan to Western (Mr. Frank P. Moolin, Jr., then President of AII, served as Mr. Bergt's assistant at Western while receiving his salary from AII).

Note 11. Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for 1983 and 1982 is as follows:

	March 31	June 30	September 30	December 31
1983				
Operating revenues	$257,259	$281,518	$323,004	$280,781
Operating income (loss)	(38,706)	(20,462)	20,653	(17,857)
Earnings (loss) before extraordinary item	(51,845)	(25,438)	10,980	(29,702)
Net earnings (loss)	(17,845)	(23,723)	16,736	(29,653)
Earnings (Loss) per Common Share:				
Primary:				
Earnings (loss) before extraordinary item	$ (4.02)	$ (1.97)	$ 0.50	$ (1.46)
Net earnings (loss)	$ (1.41)	$ (1.84)	$ 0.73	$ (1.46)
Fully Diluted:				
Earnings (loss) before extraordinary item	$ (4.02)	$ (1.97)	$ 0.42	$ (1.46)
Net earnings (loss)	$ (1.41)	$ (1.84)	$ 0.60	$ (1.46)
1982				
Operating revenues	$248,682	$257,615	$300,510	$258,463
Operating income (loss)	(6,381)	(7,670)	12,627	(29,374)
Earnings (loss) before extraordinary item	(10,840)	(12,872)	3,409	(39,643)
Net earnings (loss)	(10,840)	3,058	3,409	(39,643)
Earnings (Loss) per Common Share:				
Primary:				
Earnings (loss) before extraordinary item	$ (0.88)	$ (1.03)	$ 0.21	$ (3.08)
Net earnings (loss)	$ (0.88)	$ 0.19	$ 0.21	$ (3.08)
Fully Diluted:				
Earnings (loss) before extraordinary item	$ (0.88)	$ (0.70)	$ 0.20	$ (3.08)
Net earnings (loss)	$ (0.88)	$ 0.18	$ 0.20	$ (3.08)

Note 11. Quarterly Financial Data (Unaudited)—(Continued)

During the first quarter of 1983 Western terminated a defined benefit retirement plan for pilots. This termination produced extraordinary gains of $34,000, $1,715, $5,756 and $49 recorded in the first, second, third and fourth quarters of 1983, respectively.

Western terminated its defined benefit retirement plan for non-union employees. This termination produced an extraordinary gain for the second quarter of 1982 of $15,930.

Western revised certain actuarial assumptions, which increased the net earnings in the third quarter of 1982 by $4,193 ($0.32 per share) and reduced the net loss in the fourth quarter of 1982 by $2,980 ($0.23 per share).

Note 12. Western's Partnership Plan

In exchange for wage concessions, Western instituted a three-part program in November 1983 consisting of (i) establishment of the Employee Stock Plan, (ii) establishment of a cash profit sharing plan, and (iii) granting to employees the right to name two nominees for election to the Board of Directors at each annual meeting of shareholders.

All domestic employee groups have agreed to participate in the Employee Stock Plan during the initial Plan Year (ending October 31, 1984) and will therefore receive allocations of approximately 7.8 million shares of Western common stock to their individual participant accounts.

A participant's interest in the amounts allocated to his account will be 100% vested and nonforfeitable at all times. Upon a participant's termination of employment for any reason, his entire account balance will be distributed to him in a lump sum. The value of the stock contributed to the Plan is being amortized over the Plan Year. Accordingly, $6,713 was expensed in the fourth quarter of 1983.

The second component of the Partnership Plan is the establishment of a cash profit sharing plan. Under the Profit Sharing Plan, the Company will distribute to participating employees in cash 15% of the first $25 million of pretax profits and 20% of pretax profits in excess of $25 million annually for the three-year period beginning January 1, 1984. Profits will include only income from operations before federal income taxes and shall exclude any gains or losses from asset sales, debenture exchanges, other non-operating gains or losses, or extraordinary items. Profits will be calculated prior to giving effect to the contributions to the Profit Sharing Plan. If sufficient profits are not earned in at least two out of the three years, the Profit Sharing Plan will be extended year to year until distributions of at least $2,000 have been made in at least two separate years.

The final component of the Partnership Plan is the designation by representatives of labor groups of two nominees for election to Western's Board of Directors at each annual meeting of shareholders. The Company has amended its by-laws to accommodate these two nominees, but the labor groups have not yet designated such nominees.

Note 13. Description of Impact of Inflation (Unaudited)

Statement of Financial Accounting Standards No. 33 (SFAS No. 33) prescribes two supplementary income computations for estimating the impact of inflation. These computations estimate the effects of general inflation (constant dollars) and the effects of changes in specific prices (current cost).

SFAS No. 33 defines constant dollar accounting as a method of reporting financial statement elements in dollars each of which have the same general purchasing power. Current cost accounting is defined as a method of measuring and reporting assets and expenses associated with the use or sale of assets at their current cost or lower recoverable amount at the balance sheet date or at the date of use or sale. Both methods involve the use of assumptions and estimates. Therefore, the resulting measurements should be viewed as estimates, rather than as precise indicators of the effects of inflation.

Note 13. Description of Impact of Inflation (Unaudited)—(Continued)

The amounts reported in the primary financial statements have been adjusted for depreciation and amortization expense. Revenues and all other operating expenses are considered to reflect the average price levels and have not been adjusted. Further, there have been no adjustments made to provisions for income taxes.

Constant dollar values were determined by restating historical costs, accumulated depreciation and amortization, and depreciation expense of property and equipment into average 1983 dollars using the Consumer Price Index for all urban consumers (CPI-U) published by the Bureau of Labor Statistics. Current costs for aircraft were determined by using the direct pricing method. Current costs for spare engines, parts and assemblies included in property and equipment were computed based on the ratio by which the current cost of aircraft fleets exceeds the historic cost of such fleets. Current costs for other property and equipment were determined by indexation using the CPI-U.

Net (loss) as reported in the statement of operations	$ (54,485)
Adjustment to Restate Costs for the Effect of General Inflation:	
Depreciation and amortization expense	(32,697)
Net (loss) adjusted for general inflation	(87,182)
Adjustment to Reflect the Difference Between General Inflation and Changes in Specific Prices (current costs):	
Depreciation and amortization expense	21,526
Net (loss) adjusted for changes in specific prices	$ (65,656)
Gain from decline in purchasing power of net amounts owed	$ 6,009
Increase in specific prices (current cost) of property and equipment held during the year*.	$ 76,670
Effect of increase in general price level	(28,504)
Excess of increase in specific prices over increase in the general price level	$ 48,166

* At December 31, 1983 current cost of properties and equipment, net of accumulated depreciation and amortization, was $748,724.

Note 13. Description of Impact of Inflation (Unaudited)—(Continued)

A five-year comparison indicating the effect of adjusting historical revenues, purchasing power gains or losses on net monetary items, cash dividends, and Common Stock market prices to dollar amounts expressed in terms of average 1983 dollars as measured by CPI-U follows:

	Year Ended December 31,				
	1983	1982	1981	1980	1979
Operating Revenues	$1,142,562	$1,097,228	$1,165,825	$1,204,864	$1,277,003
Historical Cost Information Adjusted for General Inflation:					
Net earnings (loss)	(87,182)	(80,866)	(116,717)	(68,677)	28,674
Net earnings (loss) per common share	$(5.51)	$(6.20)	$(9.15)	$(5.49)	$1.95
Net assets at year-end	347,061	359,728	422,800	531,877	574,489
Current Cost Information:					
Net earnings (loss)	(65,656)	(61,926)	(145,957)	(85,932)	15,239
Net earnings (loss) per common share	$(4.15)	$(4.75)	$(11.40)	$(6.81)	$.92
Excess of increase in specific prices over increase in the general price level	48,166	7,195	85,912	138,036	7,845
Net assets at year-end*	221,298	204,318	251,148	813,046	734,793
Gain from decline in purchasing power of net amounts owed	6,009	19,113	45,888	56,685	50,358
Cash dividends paid per common share	$—	$—	$—	$.30	$.55
Market price per common share at year-end	$4.25	$5.41	$5.36	$11.05	$14.22
Average Consumer Price Index	298.4	289.1	272.4	246.8	217.4

* Prior to 1981 direct prices were based on selling prices for new aircraft provided by the Air Transport Association of America. For 1981, 1982 and 1983 current appraisals of Western's existing fleet were available for determination of current cost.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no disagreements on accounting and financial disclosure matters in 1983.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated by reference to the Company's definitive proxy statement to be filed pursuant to Regulation 14A not later than 120 days after December 31, 1983.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference to the Company's definitive proxy statement to be filed pursuant to Regulation 14A not later than 120 days after December 31, 1983.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated by reference to the Company's definitive proxy statement to be filed pursuant to Regulation 14A not later than 120 days after December 31, 1983.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference to the Company's definitive proxy statement to be filed pursuant to Regulation 14A not later than 120 days after December 31, 1983.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) Accountants' Report

Balance Sheets at December 31, 1983 and 1982

Statements of Operations for Years Ended December 31, 1983, 1982, and 1981

Statements of Changes in Financial Position for Years Ended December 31, 1983, 1982, and 1981

Statements of Shareholders' Equity for Years Ended December 31, 1983, 1982, and 1981

Notes to Financial Statements

(a)(2) Schedule V — Property, Plant, and Equipment

Schedule VI — Accumulated Depreciation and Amortization of Property, Plant and Equipment

Schedule VIII — Valuation and Qualifying Accounts

Schedule X — Supplementary Income Statement Information

Schedules not included above have been omitted because they are not applicable or the required information is shown in the Financial Statements or Notes thereto included in Item 8 of this Form 10-K.

(a)(3) Exhibits

3(a) Composite Certificate of Incorporation of Western Air Lines, Inc., as amended

3(b) By-Laws of Western Air Lines, Inc., as amended

10(a)(1) Collateral Agreement dated as of August 1, 1983 among revolving credit lenders, equipment trust equipment holders and Western (filed as Exhibit 10(a)(4) to Registration No. 2-87623)*

10(a)(2)	Assignment and Amendment and Restatement of Chattel Mortgage and Security Agreement dated as of August 1, 1983 (filed as Exhibit 10(a)(5) to Registration No. 2-87623)*
10(a)(3)	Amendment No. 1 dated as of November 1, 1983 to Collateral Agreement dated as of August 1, 1983
10(a)(4)	Supplemental Chattel Mortgage No. 1 dated as of November 1, 1983 between Western and Union Bank as Collateral Agent
10(a)(5)	Supplemental Chattel Mortgage No. 2 dated as of January 30, 1984 between Western and Union Bank as Collateral Agent
10(a)(6)	Amendment No. 1 dated as of November 1, 1983 to Revolving Credit Agreement dated as of August 1, 1983
10(a)(7)	Revolving Credit Agreement dated as of August 1, 1983 among certain lenders and Western (filed as Exhibit 10(a)(6) to Registration No. 2-87623)*
10(a)(8)	Warrant Agreement dated as of January 18, 1983 between certain lenders and Western (filed as Exhibit 10(a)(35) to Annual Report on Form 10-K for year ended December 31, 1982, File No. 1-1521)*
10(a)(9)	Warrant Agreement dated as of June 15, 1983 between Western and The Bank of New York as Warrant Agent (filed as Exhibit 10(a)(7) to Registration No. 2-87623)*
10(a)(10)	Warrant Agreement dated as of November 1, 1983 between Western and certain lenders
10(a)(11)	Agreement between Western and Associates Commercial Corporation dated June 14, 1983 (filed as Exhibit 10(a)(13) to Registration No. 2-87623)*
10(a)(12)	Equipment Trust Agreement dated as of June 15, 1983 between Western and The Bank of New York, Trustee (filed as Exhibit 4 to Quarterly Report on Form 10-Q, File No. 1-1521)*
10(a)(13)	Equipment Trust Agreement dated as of November 30, 1983 between Western and NCNB National Bank of North Carolina, Trustee (filed as Exhibit 4 to Registration No. 2-87623)*
10(a)(14)	Purchase Agreement No. 1165 dated December 22, 1982 between Western and Boeing Company, as supplemented
10(a)(15)	Purchase Agreement No. 1190 dated as of January 27, 1984 between Western and Boeing Company, as supplemented
10(a)(16)	Airport Use Agreement dated as of July 1, 1978 between Salt Lake City Corporation and Western, as amended
10(a)(17)	Lease Agreement dated as of September 13, 1961, as amended, between the City of Los Angeles and Western (filed as Exhibit 10(a)(44) to Registration No. 2-82762)*
10(a)(18)	Lease Agreement dated as of November 12, 1973 between the City of Los Angeles and Western (filed as Exhibit 20 to Annual Report on Form 10-K for the year ended December 31, 1974, File No. 1-1521)*
10(b)	Western Air Lines, Inc., Employee Stock Plan dated December 6, 1983 as amended
10(c)	Employment Agreement dated as of January 9, 1984 between Western and Lawrence H. Lee

---

* Incorporated herein by reference.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the fourth quarter of 1983.

The foregoing list omits instruments defining the rights of holders of long-term debt of the Company and its consolidated subsidiaries where the total amount of securities authorized thereunder does not exceed 10% of the total assets of the Company and its consolidated subsidiaries. The Company hereby agrees to furnish a copy of each such instrument or agreement to the Commission upon request.

ITEM 14(d)(3). FINANCIAL STATEMENT SCHEDULES

WESTERN AIR LINES, INC.

SCHEDULE V—PROPERTY, PLANT AND EQUIPMENT(1)

For the Years Ended December 31, 1983, 1982, and 1981

(In Thousands of Dollars)

	Balance at Beginning of Period	Additions at Cost	Retirements	Balance at End of Period
Year Ended December 31, 1983:				
Flight equipment	$ 850,957	$ 2,108	$ 1,234	$ 851,831
Facilities and ground equipment	140,471	9,287	4,843	144,915
Deposits on equipment purchase contracts	27,017	8,091	—	35,108
	$1,018,445	$19,486	$ 6,077	$1,031,854
Flight equipment not used in operations and reflected under "Other assets" on the balance sheet	$ 3,794	$ —	$ 414	$ 3,380
Year Ended December 31, 1982:				
Flight Equipment	$ 828,276	$23,822	$ 1,141	$ 850,957
Facilities and ground equipment	139,400	4,107	3,036	140,471
Deposits on equipment purchase contracts	21,508	5,509	—	27,017
	$ 989,184	$33,438	$ 4,177	$1,018,445
Flight equipment not used in operations and reflected under "Other assets" on the balance sheet	$ 4,401	$ 22	$ 629	$ 3,794
Year Ended December 31, 1981:				
Flight equipment	$ 848,111	$42,957	$62,792	$ 828,276
Facilities and ground equipment	130,703	10,806	2,109	139,400
Deposits on equipment purchase contracts	37,966	(200)(3)	16,258(2)	21,508
	$1,016,780	$53,563	$81,159	$ 989,184
Flight equipment not used in operations and reflected under "Other assets" on the balance sheet	$ 15,820	$ (71)	$11,348	$ 4,401

(1) For disclosure of the methods and lives used in computing the provision for depreciation see Note 1 of Notes to Financial Statements.

(2) Reimbursements upon financing of aircraft.

(3) Net of transfers to flight equipment.

Reconciliation to Statements of Changes in Financial Position

	1983	1982	1981
Additions to property and equipment	$19,486	$33,438	$53,563
Interest capitalized	(2,977)	(2,508)	(4,805)
Other—net	(127)	3	1,052
Purchase of property and equipment and advances thereon	$16,382	$30,933	$49,810

WESTERN AIR LINES, INC.

SCHEDULE VI—ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT, AND EQUIPMENT

For the Years Ended December 31, 1983, 1982, and 1981

(In Thousands of Dollars)

	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements	Balance at End of Period
Year Ended December 31, 1983:				
Flight equipment	$289,038	$48,698	$ 598	$337,138
Facilities and ground equipment	94,653	9,650	4,562	99,741
	$383,691	$58,348	$ 5,160	$436,879
Flight equipment not used in operations and reflected under "Other assets" on the balance sheet	$ 3,181	$ —	$ 364	$ 2,817
Year Ended December 31, 1982:				
Flight Equipment	$239,654	$49,826	$ 442	$289,038
Facilities and ground equipment	87,083	10,142	2,572	94,653
	$326,737	$59,968	$ 3,014	$383,691
Flight equipment not used in operations and reflected under "Other assets" on the balance sheet	$ 3,763	$ —	$ 582	$ 3,181
Year Ended December 31, 1981:				
Flight equipment	$219,309	$51,043	$30,698	$239,654
Facilities and ground equipment	78,653	10,238	1,808	87,083
	$297,962	$61,281	$32,506	$326,737
Flight equipment not used in operations and reflected under "Other assets" on the balance sheet	$ 12,133	$ —	$ 8,370	$ 3,763

Reconciliation to Statements of Operations and Statements of Changes in Financial Position

	1983	1982	1981
To Statements of Operations:			
Additions charged to costs and expenses	$58,348	$59,968	$61,281
Amortization of preoperating costs	—	—	499
Depreciation of flight equipment expendable parts	1,054	1,805	1,931
	59,402	61,773	63,711
Deduct amounts charged to other operating expenses	23	22	79
Depreciation and amortization	$59,379	$61,751	$63,632
To Statements of Changes in Financial Position:			
Additions charged to costs and expenses	$58,348	$59,968	$61,281
Amortization of preoperating costs	—	—	499
Depreciation and amortization	$58,348	$59,968	$61,780

WESTERN AIR LINES, INC.

SCHEDULE VIII—VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended December 31, 1983, 1982, and 1981

(In Thousands of Dollars)

	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
Year Ended December 31, 1983:				
Allowance for obsolescence of flight equipment expendable parts	$16,364	$1,054	$ 345(1)	$17,073
Allowance for doubtful accounts	3,491	8,225	2,958(2)	8,758
Year Ended December 31, 1982:				
Allowance for obsolescence of flight equipment expendable parts	$15,422	$1,805	$ 863(1)	$16,364
Allowance for doubtful accounts	2,959	2,673	2,141(2)	3,491
Year Ended December 31, 1981:				
Allowance for obsolescence of flight equipment expendable parts	$14,062	$1,931	$ 571(1)	$15,422
Allowance for doubtful accounts	2,379	2,816	2,236(2)	2,959

(1) Charges upon retirement.

(2) Bad debts deemed uncollectible.

WESTERN AIR LINES, INC.

SCHEDULE X—SUPPLEMENTARY INCOME STATEMENT INFORMATION

For the Years Ended December 31, 1983, 1982, and 1981

(In Thousands of Dollars)

	1983	1982	1981
Charged to Operating Expenses:			
Maintenance and repairs	$91,122	$77,889	$85,280
Taxes other than payroll and income taxes:			
Property taxes	6,296	6,981	6,942
Fuel and other	7,397	7,705	8,514
Advertising and publicity	24,289	23,503	24,400

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WESTERN AIR LINES, INC.

By /s/ LAWRENCE H. LEE

Lawrence H. Lee
Chairman and Chief Executive Officer

February 21, 1984

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the date indicated.

Signature	Title	Date
/s/ LAWRENCE H. LEE Lawrence H. Lee	Chairman and Chief Executive Officer and Director (Principal Executive Officer)	February 21, 1984
/s/ GERALD GRINSTEIN Gerald Grinstein	President and Chief Operating Officer and Director	February 21, 1984
/s/ ANDRE C. DIMITRIADIS Andre C. Dimitriadis	Senior Vice President—Finance and Administration and Director (Principal Financial Officer)	February 21, 1984
/s/ GLEN L. STEWART Glen L. Stewart	Vice President and Controller (Principal Accounting Officer)	February 21, 1984
/s/ FRED BENNINGER Fred Benninger	Director	February 21, 1984
/s/ MIGUEL M. BLASQUEZ Miguel M. Blasquez	Director	February 21, 1984

Signature	Title	Date
/s/ VICTOR L. BROWN Victor L. Brown	Director	February 21, 1984
/s/ WALTER J. HICKEL Walter J. Hickel	Director	February 21, 1984
/s/ BERT T. KOBAYASHI, JR. Bert T. Kobayashi, Jr.	Director	February 21, 1984
/s/ GEORGE S. SUDDOCK George S. Suddock	Director	February 21, 1984
/s/ ROY G. UTTER Roy G. Utter	Director	February 21, 1984
/s/ ROBERT H. VOLK Robert H. Volk	Director	February 21, 1984

BOARD OF DIRECTORS

Fred Benninger
President
Tracinda Corporation
Las Vegas, Nevada

Miguel M. Blasquez
President
Inter-American
Commercial
Arbitration
Commission
Mexico City, Mexico

Victor L. Brown
Presiding Bishop
The Church of
Jesus Christ of
Latter-day Saints
Salt Lake City, Utah

Andre C. Dimitriadis
Senior Vice President-
Finance and
Administration
Western Air Lines, Inc.
Los Angeles, California

Gerald Grinstein
President and
Chief Operating Officer
Western Air Lines, Inc.
Los Angeles, California

Walter J. Hickel
Chairman of the Board
Hickel Investment
Company
Anchorage, Alaska

Bert T. Kobayashi, Jr.
Attorney-at-Law
Kobayashi, Watanabe,
Sugita and Kawashima
Honolulu, Hawaii

Lawrence H. Lee
Chairman of the Board
and Chief Executive
Officer
Western Air Lines, Inc.
Los Angeles, California

Spencer R. Stuart
Management Consultant
Dallas, Texas

George S. Suddock
Chairman of the Board
Alaska National
Insurance Company
Anchorage, Alaska

Capt. Roy G. Utter
Pilot
Western Air Lines, Inc.
Los Angeles, California

Robert H. Volk
Chairman/Owner
Martin Aviation, Inc.
Torrance, California

CORPORATE OFFICERS

Lawrence H. Lee
Chairman of the Board
and Chief
Executive Officer

Gerald Grinstein
President and
Chief Operating Officer

Don L. Beck
Senior Vice President-
Service

Harry T. Chandis
Senior Vice President-
Marketing

Andre C. Dimitriadis
Senior Vice President-
Finance and
Administration

Seth M. Oberg
Senior Vice President-
Operations

Harold Achtziger
Vice President-
Airport Operations

Jack W. Boisen
Vice President-
Personnel Relations

Howard L. Culver
Vice President-
Regulatory Affairs

Duane B. Gerrard
Vice President-
Flight Operations

Thomas J. Greene
Vice President,
General Counsel &
Secretary

Robert L. Moore
Vice President-
Market Planning

Michael J. Palumbo
Vice President &
Treasurer

Cal Rader
Vice President-
Data Processing &
Communications

Glen L. Stewart
Vice President &
Project Director-Salt Lake
City

Douglas B. Swets
Vice President &
Controller

Jorge Valencia
Vice President &
General Manager-Mexico

C.F. Van Every
Vice President-
Corporate Affairs

Jim Watson
Vice President-
Passenger & Cargo Sales

General Offices
Western Air Lines, Inc.
6060 Avion Drive
Los Angeles, California 90045
(213) 646-2345

Registrar/Transfer Agent-Common & Preferred Stock
Bank of America National Trust & Savings Association
555 South Flower St., Los Angeles, California 90071

Debenture and Subordinated Note Trustee
United States Trust Company of New York
45 Wall Street, New York, New York 10005

Exchange Listing-Common & Preferred Stock Debentures and Subordinated Notes
New York Stock Exchange
Pacific Stock Exchange

Ticker Symbols
Common Stock WAL
Preferred Stock WALA
5¼% Debentures WALK
10% Notes WAL.
10¾% Notes WAM
14% Notes WAD
Common Stock Warrants WALW

Independent Accountants
Peat, Marwick, Mitchell & Co.
555 South Flower Street
Los Angeles, California 90071

Annual Meeting of Shareholders
Second Thursday in May

Notice to Shareholders

A rule adopted by the Civil Aeronautics Board ("CAB") in July 1970, as amended on December 29, 1972, imposes obligations on certain stockholders of air carriers. Any person who owns as of December 31 of any year or subsequently acquires, either beneficially or as a trustee, more than 5% of any class of capital stock of an air carrier must file with the CAB a report containing the information required by Part 245.12 of the CAB's Economic Regulations on or before April 1 as to the capital stock owned as of December 31 and/or a report containing the information required by Part 245.13 of the CAB's Economic Regulations within 10 days after acquisition as to the capital stock acquired, after December 31. Any bank or broker which holds as trustee more than 5% of any class of capital stock of an air carrier on the last day of any quarter of a calendar year must file with the CAB within 30 days after the end of the quarter a report in accordance with the provisions of Part 245.14 of the CAB's Economic Regulations.

Any person required to report under either Part 245.12, Part 245.13 or Part 245.14 of the CAB's Economic Regulations who grants a security interest in more than 5% of any class of capital stock of an air carrier must within 30 days after granting such security interest file with the CAB a report containing the information required in part 245.15. Any stockholder who believes that he may be required to file such a report may obtain further information by writing to the Director, Bureau of Domestic Aviation, Civil Aeronautics Board, Washington, D.C. 20428.

"Western—Count on Us" is the airline's marketing theme, introduced in early 1984. The new theme reflects Western's schedules and services which are designed to meet the needs of the frequent business flyer, and it reflects the personal commitment of all Western employees throughout the United States, Western Canada and Mexico. The 1983 Annual Report cover salutes Western employees. Representing all Western employees are, from left to right:

FRONT COVER

R. Gough R. Lynes T. Friese P. Rogers B. Edde T. Stelle M. Sroczynski C. Smith F. Jepson B. Missileine H. Patton B. Bradley S. Reese F. Cox J. Wenkus J. Perfili R. Roberts G. Fristrup D. Stewart B. Lee C. Waitley E. Lenhardt D. Steed W. Allen J. Ferguson G. Haug P. Brown D. Reber J. Jungers K. Christensen J. Harris N. Musgraee L. Stadtmueller D. Worthen M. Sayea J. Milligan W. Anderson E. Harris B. Roose S. Webb O. Farnsworth W. Pont C. Geffre T. Dearing K. Edwards B. Coln E. Giron G. Cotton D. Crittenden S. Frame C. Trigg K. Brockbank N. Masson R. Rosas S. Gilmore K. Hopkins J. Kristoff R. Bates C. Rowe J. Thompson S. Yuzyk E. Koelliker J. Conner J. Muench R. Vogel V. Westfall E. Puckett D. Richardson D. Davis C. Latimer S. Rushton J. Terrell L. Hurlburt P. Person E. Gallup K. Van Paepeghem L. Smith M. Cromer S. Kiesig D. Soppland L. Lemelle R. Lee B. Smith E. Spillman K. Shirley J. Griswold B. Tesch G. Robinson S. White J. Mayo K. Nyenhuis M. Fritz L. Malone K. Cook J. Mangiantini J. Edwards T. Powlridge B. Brackus

BACK COVER

E. Fraley N. Greenland L. Seal C. Wichterman D. Voges A. Laperouse M. Ellis G. Collins K. West E. Larson J. Spain M. Brett J. Woods J. Rye R. Jerman M. Murphy E. Willard C. Otting B. Walker G. Fassler G. Rogers S Peterson B. Scofield M. DeCastro T. Hanson N. Goodnight F. Yamawaki C. Francis M. Zenger J. Martinez K. Bashore M. Royall D. Caldero C. Thompson M. Leonis I. Torres B. Gaillard A. Aleu Pavon B. Bergstrom M. Baker C. Donoghue R. Grotepas J. Peebles L. Hinckley G. Lopez G. Stratton S. Wilkins S. Heinitz D. Rathburn D. Schlidt A. Reiberg J. Bond G. Ryan M. Oliver S. Brooks W. Paul J. Clark B. Harms O. Aduna B. Guillian L. Froehlich J. Walker S. Rodarte J. Ross G. Marchese T. Weaver B. Carver K. Seifert J. Rebolledo D. Campos K. Bankhead J. Hanson P. Zeigler L. Neth K. Schiff B. Geise B. Montgomery T. Haggerty J. Gregorio M. Sawyer E. Gray S. Olsen J. Olmo K. McConnell A. Castro J. Beal W. Ressl K. Ringo L. Gil S. McMahan A. Schroeder L. Albiston A. Williams M. Plooy C. Lewis P. Meyer R. Anderson F. Siebold F. Martinez